THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in EC-Founder (Holdings) Company Limited (the "Company"), you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

EC-FOUNDER (HOLDINGS) COMPANY LIMITED

方正數碼(控股)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00618)

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS: ACQUISITION OF TIANRANJU AND TIANHE AND ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE BONDS (2) WHITEWASH WAIVER (3) CONTINUING CONNECTED TRANSACTIONS: LOAN AGREEMENT AND ENTRUSTED LOAN AGREEMENT (4) CONTINUING CONNECTED TRANSACTIONS: MASTER LEASE AGREEMENT

Financial adviser to the Company

DBS

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

A letter from the board of directors of EC-Founder (Holdings) Company Limited is set out on pages 8 to 65 of this circular. A letter from the Independent Board Committee of the Company is set out on pages 66 to 67 of this circular. A letter from Anglo Chinese Corporate Finance, Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 68 to 119 of this circular.

A notice convening the special general meeting to be held at 10:00 a.m. on Wednesday, 5 December 2012 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of EC-Founder (Holdings) Company Limited at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not later than 48 hours before the time of the special general meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting should you so wish.

* *For identification purpose only*

16 November 2012

CONTENTS

Unless the context otherwise requires, capitalised terms used in this circular shall have the following meanings:

"Acquired Group"	Tianranju, Tianhe and their respective subsidiaries
"Acquisition"	the acquisition by the Company of the Sale Shares pursuant to the terms of the S&P and Subscription Agreement
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Anglo Chinese"	Anglo Chinese Corporate Finance, Limited, a licensed corporation to carry out Types 1, 4, 6 and 9 regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement
"Announcement"	the announcement made by the Company dated 6 September 2012
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing Tianranju"	北京天然居科技有限公司 (Beijing Tianranju Technology Co., Ltd*), a company established in the PRC and is wholly owned by Hubei Tianranju
"Board"	the board of Directors
"Bondholder(s)"	holder(s) of the Convertible Bonds, including all the subsequent transferee(s) of the Convertible Bonds
"Bond Issue Date"	the date on which the Convertible Bonds are issued, being the Completion Date
"Bond Maturity Date"	the date falling on the fifth anniversary of the Bond Issue Date
"Business Day"	means any day (other than a Saturday, Sunday, a public holiday or a day on which typhoon signal no. 8 or above or a "black" rainstorm warning is hoisted in Hong Kong) on which banks in Hong Kong are open for business

"Company"	EC-Founder (Holdings) Company Limited（方正數碼（控股）有限公司*）, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition and the Subscription in accordance with the terms of the S&P and Subscription Agreement
"Completion Date"	the date of Completion, being the third business day following the fulfillment (or waiver thereof) of the conditions precedent or such other date as the parties to the S&P and Subscription Agreement may agree in writing
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration Convertible Bonds"	convertible bonds with terms identical to Subscription Convertible Bonds in the aggregate principal amount of HK$310 million to be issued on the Completion Date in partial satisfaction of the consideration for the Acquisition
"Consideration Shares"	527,906,976 new Shares to be issued to the Vendor at the issue price of HK$0.43 on the Completion Date in partial satisfaction of the consideration for the Acquisition
"Conversion Date"	a day when the conversion rights attaching to the Convertible Bonds are exercised which, unless otherwise provided in the terms and conditions of the Convertible Bonds, shall be deemed to be the second business day immediately following the date of service of the relevant notice of conversion together with the relevant Convertible Bond certificate
"Conversion Period"	the period commencing from the business day immediately after two months of the Bond Issue Date and ending on the Bond Maturity Date, both dates inclusive
"Conversion Shares"	new Shares to be allotted and issued upon any conversion of the Convertible Bonds
"Convertible Bonds"	the Consideration Convertible Bonds and the Subscription Convertible Bonds
"Director(s)"	the directors of the Company

"Enlarged Group"	the Group as enlarged by the Acquisition
"Entrusted Loan"	the entrusted loan with principal amount of RMB250,000,000 provided by PKU Resource (through Founder Finance) to Kunshan Hi-Tech under the Loan Agreement and the Entrusted Loan Agreement
"Entrusted Loan Agreement"	the entrusted loan agreement dated 5 July 2012 entered into between Founder Finance and Kunshan Hi-Tech in respect of the Entrusted Loan
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Ezhou Jinfeng"	鄂州金豐房地產開發有限公司 (Ezhou Jinfeng Property Development Co., Limited*), a company established in the PRC and is owned as to 95% by Tianhe Property
"Founder Finance"	北大方正集團財務有限公司 (PKU Founder Group Finance Co., Ltd.*), a company established in the PRC and a subsidiary of Peking Founder
"Founder International Building"	Founder International Building (方正國際大廈), situated at No 52, North Fourth Ring Road West, Haidian District, Beijing, the PRC (北京市海淀區北四環西路52號)
"GFA"	gross floor area
"Group"	the Company and its subsidiaries
"Hubei Tianranju"	湖北天然居商業運營管理有限公司 (Hubei Tianranju Business Management Limited*), a company established in the PRC and is wholly-owned by Tianranju
"Hubei Tianranju Group"	Hubei Tianranju and its subsidiaries

"Independent Board Committee"	an independent committee of the Board comprising Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian, the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement
"Independent Shareholders"	the Shareholders other than the Vendor, parties acting in concert with it and those who are involved in or interested in the relevant resolutions to be approved at the SGM
"Kunshan Hi-Tech"	昆山高科電子藝術創意產業發展有限公司 (Kunshan Hi-Tech Electronic Arts Creative Industry Development Co., Ltd.*), a company established in the PRC and is owned by Hubei Tianranju as to 51%
"Latest Practicable Date"	13 November 2012, being the latest practicable date prior to the despatch of this circular for the purpose of ascertaining certain information contained herein
"Land Use Rights"	the land use rights over two parcels of land with a total area of 288,518 square meters owned by Kunshan Hi-Tech, both of which are situated at the south of Yingbin Road and the west of Hongqi Road, Bacheng Town, Kunshan city, Jiangsu province, the PRC
"Last Trading Day"	23 August 2012, being the last day on which the Shares were traded on the Stock Exchange pending the release of the Announcement
"LCH"	LCH (Asia-Pacific) Surveyors Limited, the independent property valuer
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Agreement"	the loan agreement dated 6 May 2012 entered into between Kunshan Hi-Tech and PKU Resource, pursuant to which PKU Resource would, subject to certain conditions, entrust Founder Finance to provide a one-year term loan in the sum of RMB250,000,000 to Kunshan Hi-Tech

"Master Lease Agreement"	a master lease agreement dated 28 August 2012 entered into between the Company and Peking Founder in relation to the lease of certain commercial premises in Founder International Building
"Peking Founder"	北大方正集團有限公司 (Peking University Founder Group Co., Ltd.*), a company established in the PRC with limited liability
"Peking Founder Group"	Peking Founder, its subsidiaries and any company owned as to 30% or more by Peking Founder
"PKU Resource"	北大資源集團有限公司 (Peking University Resource Group Co., Ltd.*), a company established in the PRC with limited liability and a subsidiary of 北大資產經營有限公司 (Peking University Asset Management Company Limited*), the holding company of Peking Founder
"PRC" or "China"	the People's Republic of China
"S&P and Subscription Agreement"	the sale and purchase and subscription agreement dated 23 August 2012 and entered into among the Company and the Vendor in relation to the Acquisition and the Subscription
"Sale Shares"	means the 19,822,000 shares in Tianranju representing the entire issued shares in Tianranju and 10,000 shares in Tianhe representing the entire issued shares in Tianhe, all of which are legally and beneficially owned by the Vendor as at the Latest Practicable Date
"SFC"	Securities and Futures Commission
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held on 5 December 2012 to approve, among other things, the Acquisition, the Subscription, the issue of the Convertible Bonds and the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement
"Share(s)"	ordinary share(s) with a par value of HK$0.10 each in the capital of the Company
"Shareholder(s)"	holder(s) of Share(s)

"Share Option Scheme"	the share option scheme of the Company adopted on 24 May 2002
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription by the Vendor of the Subscription Convertible Bonds pursuant to the terms of the S&P and Subscription Agreement
"Subscription Convertible Bonds"	convertible bonds with terms identical to Consideration Convertible Bonds in aggregate principal amount of HK$62 million to be issued by the Company to the Vendor on the Completion Date at a consideration of HK$62 million
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Tianhe"	Hong Kong Tianhe Holdings Limited, a company incorporated in Hong Kong which is wholly-owned by the Vendor as at the Latest Practicable Date
"Tianhe Group"	Tianhe and its subsidiaries
"Tianhe Property"	天合地產發展有限公司 (Tianhe Property Development Limited*), a company established in the PRC and is owned as to 90% by Tianhe
"Tianhe Property Group"	Tianhe Property and Ezhou Jinfeng
"Tianranju"	Hong Kong Tianranju Holdings Limited, a company incorporated in Hong Kong which is wholly-owned by the Vendor as at the Latest Practicable Date
"Tianranju Group"	Tianranju and its subsidiaries
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code to waive the obligation of the Vendor to make a mandatory offer for all the Shares not already owned or agreed to be acquired by the Vendor and parties acting in concert with it under Rule 26 of the Takeovers Code as a result of the issue of the Consideration Shares

* *For identification purpose only*

"Vendor"	Founder Information (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, which is owned as to 96.92% by Peking Founder as at the Latest Practicable Date and the controlling Shareholder
"RMB"	means Renminbi, the lawful currency of the PRC
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong

EC-FOUNDER (HOLDINGS) COMPANY LIMITED
方正數碼(控股)有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 00618)

Executive Directors:
Mr Zhang Zhao Dong *(Chairman)*
Mr Chen Cheng *(President)*
Mr Xia Yang Jun
Mr Xie Ke Hai
Mr Zheng Fu Shuang

Independent non-executive Directors
Mr Li Fat Chung
Ms Wong Lam Kit Yee
Ms Cao Qian

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal Place of Business in Hong Kong:
Unit 1408
14th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

16 November 2012

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS: ACQUISITION OF TIANRANJU AND TIANHE AND ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE BONDS
(2) WHITEWASH WAIVER
(3) CONTINUING CONNECTED TRANSACTIONS: LOAN AGREEMENT AND ENTRUSTED LOAN AGREEMENT
(4) CONTINUING CONNECTED TRANSACTIONS: MASTER LEASE AGREEMENT

1. INTRODUCTION

Reference is made to the Announcement in relation to the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the transactions contemplated under the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement.

The purpose of this circular is (i) to provide you with, amongst other things, further information relating to the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the transactions contemplated under the Loan Agreement, the Entrusted

* *For identification purpose only*

Loan Agreement and the Master Lease Agreement; (ii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders; (iii) to give you a notice of the SGM to approve the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the transactions contemplated under the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement; and (iv) to provide you with other information as required under the Listing Rules and the Takeovers Code.

2. VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS: ACQUISITION OF TIANRANJU AND TIANHE AND ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE BONDS

After trading hours on 23 August 2012, the Company and the Vendor entered into the S&P and Subscription Agreement, pursuant to which the Company has conditionally agreed to (i) purchase the Sale Shares from the Vendor for a total consideration of HK$537 million, which will be satisfied by the issue of the Consideration Shares and the Consideration Convertible Bonds; and (ii) issue the Subscription Convertible Bonds to the Vendor at the consideration of HK$62 million.

The S&P and Subscription Agreement

Date

23 August 2012

Parties

Purchaser : The Company

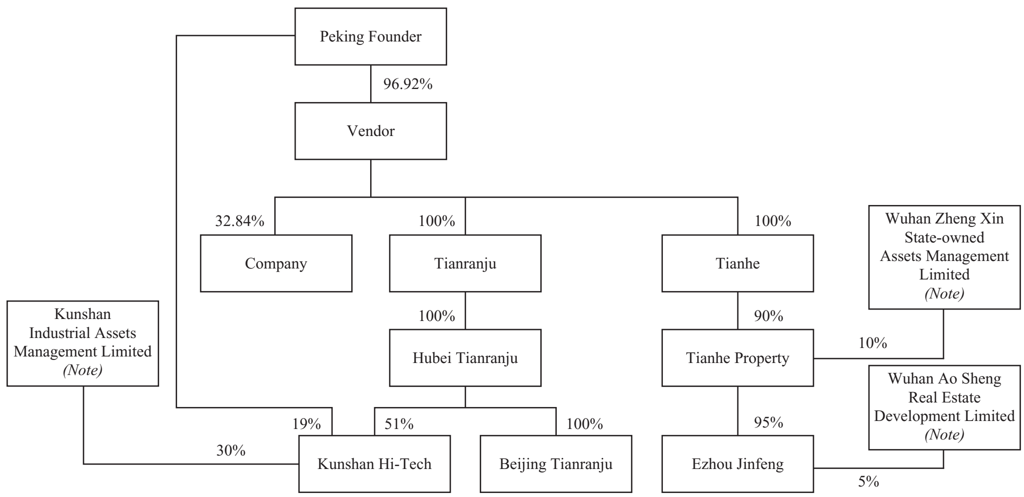
Vendor : Founder Information (Hong Kong) Limited

Assets to be acquired

The Sale Shares represent (i) 100% of the issued shares in Tianranju; and (ii) 100% of the issued shares in Tianhe. As at the Latest Practicable Date, all the legal and beneficial interest of the Sale Shares are owned by the Vendor. Tianranju was incorporated by the Vendor on 7 October 2010, with an initial capital of HK$10,000. In December 2011, the Vendor injected additional capital of HK$19,812,000 to Tianranju. Tianhe was incorporated by the Vendor on 6 October 2010, with an initial capital of HK$10,000. On 18 September 2012, the Vendor injected additional capital of HK$100,341,000 to Tianhe.

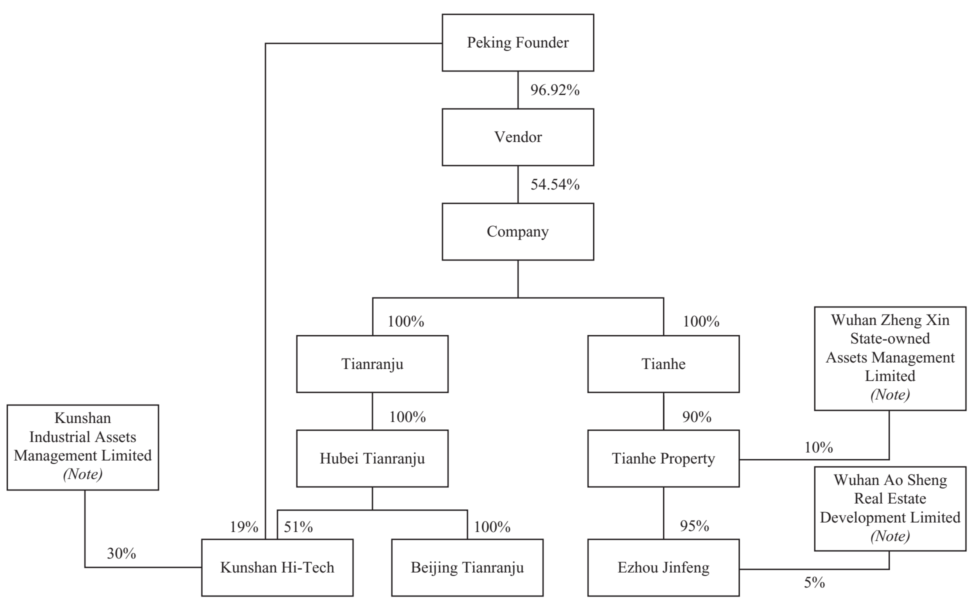
Tianranju is directly interested in 100% of the equity interests in Hubei Tianranju and indirectly interested in (i) 51% of the equity interests in Kunshan Hi-Tech; and (ii) 100% of the equity interests in Beijing Tianranju. Tianhe owns 90% of the equity interests in Tianhe Property which in turn owns 95% of the equity interests in Ezhou Jinfeng.

Set out below is the chart showing the shareholding structure of the Company and the Acquired Group prior to the Completion:



Note: Each of these entities and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. Further, each of these entities does not hold any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

Set out below is the chart showing the shareholding structure of the Company upon Completion:



Note: Each of these entities and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. Further, each of these entities does not hold any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

The Acquisition will not result in a change of control of the Company.

Consideration

The total consideration for the Acquisition is HK$537 million, which will be satisfied by the issue of the Consideration Shares as to HK$227 million and Consideration Convertible Bonds as to HK$310 million. The consideration was determined among the parties after arm's length negotiations and taking into consideration, among other things, the consolidated net assets values of the Acquired Group after adjusting for the valuation of the properties owned by the Acquired Group and the proposed capital injection of RMB82 million by the Vendor into Tianhe before the Completion Date. For the valuation of the properties owned by the Acquired Group as at 31 August 2012, please refer to Appendix V to this circular.

Out of the total consideration of HK$537 million for the Acquisition, approximately HK$215 million and HK$322 million were attributable to Tianranju and Tianhe respectively. The Directors (including the independent non-executive Directors) are of the view that the consideration for the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion shall be conditional upon the fulfilment of the following conditions:

(a) the passing by the Independent Shareholders of all necessary resolutions at the SGM approving the S&P and Subscription Agreement, the transactions contemplated under the S&P and Subscription Agreement, the Whitewash Waiver, the Loan Agreement and the Entrusted Loan Agreement;

(b) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares;

(c) the Executive having granted the Whitewash Waiver;

(d) all other requisite consents, authorisations and approvals (or, as the case may be, the relevant waiver) in connection with the entering into and performance of the terms of the S&P and Subscription Agreement having been obtained by the Vendor, Tianranju and Tianhe;

(e) the Vendor injecting a sum of RMB82,000,000 to Tianhe as capital;

(f) (i) the charge dated 28 January 2011 entered into by Tianhe Property in favour of Shengjing Bank Co. Ltd (Beijing Branch) (Contract No.: 1010119111000001) and (ii) the charge dated 28 January 2011 entered into by Ezhou Jinfeng in favour of Shengjing Bank Co. Ltd. (Beijing Branch) (Contract No.: 1010119111000002) having been released;

(g) the warranties in the S&P and Subscription Agreement remaining true, accurate and complete in all respects and not misleading in any respect as at Completion;

(h) the Company being satisfied that there has been no material adverse change as at Completion;

(i) no breach of obligations and undertakings given by the Vendor hereunder to be performed before Completion having occurred; and

(j) the Company being satisfied with its due diligence on the Acquired Group.

The Company may in its absolute discretion waive any of the above conditions precedent or any part of a condition precedent (other than the conditions precedent labelled (a), (b), (c), (e) and (f) above) at any time by notice in writing to the Vendor. Such waiver is without prejudice to the Vendor's obligations to satisfy, as soon as possible after Completion, any waived conditions precedent (or part of any condition precedent), whereas the conditions precedent labeled (a), (b), (c), (e) and (f) above are not waiveable by any party and therefore if any of the conditions labelled (a), (b), (c), (e) and (f) cannot be fulfilled on or before 31 January 2013 (or such other date as the parties to the S&P and Subscription Agreement may agree in writing), the Acquisition shall lapse. The Company will only exercise its right to waive such condition (other than (a), (b), (c), (e) and (f)) if it is fair and reasonable and in the interests of the Company and the Shareholders. The Company currently has no intention to waive any of such conditions. As at the Latest Practicable Date, conditions (e) and (f) have been fulfilled.

The Vendor shall use its best endeavours to procure the fulfilment of the aforesaid conditions precedent (except the conditions precedent labelled (a) and (b) above which shall be fulfilled by the Company) on or before 31 January 2013 (or such other date as the parties to the S&P and Subscription Agreement may agree in writing). As soon as any condition precedent (other than the conditions precedent labelled (g), (h), (i) and (j) to be fulfilled or waived before Completion) have been fully satisfied (or waived), as the case may be, the Vendor shall give written notice of the same to the Company.

In the event that not all of the conditions precedent are fulfilled, or waived, as the case may be, by the Company pursuant to the terms of the S&P and Subscription Agreement by 31 January 2013 (or such other date as the parties to the S&P and Subscription Agreement may agree in writing), then the Company shall not be bound to proceed with the Acquisition and the Subscription and the Company shall be entitled to terminate the S&P and Subscription Agreement by notice in writing to the Vendor. Upon termination, the parties to the S&P and Subscription Agreement shall be released and discharged from their respective obligations under the S&P and Subscription Agreement, except as otherwise provided in the S&P and Subscription Agreement, any cause of action accrued or any liability arising before or in relation to such termination shall continue notwithstanding such termination.

Completion

Completion shall take place on the Completion Date, being the third Business Day following the fulfilment (or waiver thereof) of the conditions precedent or such other date as the parties to the S&P and Subscription Agreement may agree in writing.

Except for the charge over the Land Use Rights used to secure the entrusted loan under the Loan Agreement and the Entrusted Loan Agreement described below, the Directors expect that all assets and shares of the Acquired Group will be free from all encumbrances at Completion.

Consideration Shares

Upon Completion, the Company shall issue 527,906,976 new Shares to the Vendor at the issue price of HK$0.43 per Share in partial settlement of the consideration for the Acquisition. The Consideration Shares represent approximately 47.73% of the issued share capital of the Company as at the Latest Practicable Date and approximately 32.31% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming no further Shares will be allotted and issued prior to the issue of the Consideration Shares). The issue price for each Consideration Share represents:

(i) a premium of approximately 22.86% over the closing price per Share of HK$0.35 as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) the closing price per Share of HK$0.43 as quoted on the Stock Exchange on the Last Trading Day;

(iii) the average closing price per Share of approximately HK$0.43 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 3.70% to the average closing price per Share of approximately HK$0.4465 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 40.07% over the audited consolidated net assets value attributable to the Shareholders per Share of approximately HK$0.307 as at 31 December 2011;

(vi) a premium of approximately 58.09% over the unaudited consolidated net assets value attributable to the Shareholders per Share of approximately HK$0.272 as at 30 June 2012; and

(vii) a discount of approximately 23.89% to the unaudited pro-forma consolidated net assets value attributable to the Shareholders per Share of approximately HK$0.565 as at 31 December 2011.

The Consideration Shares rank pari passu in all respects with other issued Shares on the Completion Date.

Principal terms of the Convertible Bonds

Pursuant to the S&P and Subscription Agreement, the Company will issue to the Vendor, at Completion, (i) the Consideration Convertible Bonds, in partial settlement of the consideration for the Acquisition; and (ii) the Subscription Convertible Bonds to the Vendor at the consideration of HK$62 million. The gross and net proceeds of the Subscription are both HK$62 million. The terms and conditions of the Convertible Bonds have been negotiated between the Company and the Vendor on an arm's length basis. The following sets out the principal terms of the Convertible Bonds:

Issuer:	The Company
Aggregate principal amount:	HK$310 million for the Consideration Convertible Bonds and HK$62 million for the Subscription Convertible Bonds
Interest:	The Convertible Bonds shall not bear any interest
Maturity date:	The date falling on the fifth anniversary of the issue of the Convertible Bonds
Conversion right:	Subject to and upon compliance with the terms and conditions of the Convertible Bonds and all regulatory requirements (including without limitation the Takeovers Code and the Listing Rules), each Bondholder shall have the right, at the sole option of such Bondholder, at any time during the Conversion Period to convert the Convertible Bonds held by such Bondholder in whole, or in any part representing at least HK$1,000,000 of the outstanding principal amount of the Convertible Bonds into the Conversion Shares, calculated for each conversion to be the greatest number of Shares, disregarding fractions, obtainable by dividing the aggregate principal amount of the Convertible Bonds to be converted by the conversion price of HK$0.43 per Conversion Share, by giving two Business Days' notice (such notice, once given, may not be withdrawn without the consent in writing of the Directors). Each Bondholder shall not convert the Convertible Bonds which will cause the Company to be unable to meet the public float requirements as required under Rule 8.08 of the Listing Rules

	or will result in a change of control (as defined in the Takeovers Code) in the Company. The Bondholder shall take all necessary steps to ensure the public float requirements under Rule 8.08 of the Listing Rules be complied with before such conversion and there be no change of control (as defined in the Takeovers Code) in the Company. If conversion of the Convertible Bonds on the Bond Maturity Date will result in the non-compliance with the public float requirements as required under Rule 8.08 of the Listing Rules or will result in a change of control (as defined in the Takeovers Code) in the Company, the Bond Maturity Date shall be extended to a further five year period automatically with all other terms and conditions of the Convertible Bonds remaining the same. For avoidance of doubt, such extension of the Bond Maturity Date shall repeat until conversion of the Convertible Bonds on the extended Bond Maturity Date will neither result in the non-compliance with the public float requirements as required under Rule 8.08 of the Listing Rules nor will result in a change of control (as defined in the Takeovers Code) in the Company. In other words, the Company is entitled to disallow conversion under the terms of the Convertible Notes if such conversion will cause the Company unable to meet the public float requirements as required under Rule 8.08 of the Listing Rules or will result in a change of control (as defined in the Takeovers Code) of the Company.
Conversion Shares:	The Conversion Shares shall be allotted and issued pursuant to the specific mandate to be sought at the SGM, and shall rank pari passu with the Shares in issue on the Conversion Date, except that they shall not be entitled to receive any dividend, distribution or entitlement declared, paid or made by reference to a record date prior to the relevant Conversion Date.

Upon conversion in full of the Convertible Bonds, an aggregate of 865,116,278 Conversion Shares will be issued, representing approximately 78.22% of the issued share capital of the Company as at the Latest Practicable Date and approximately 34.62% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (assuming no further Shares will be allotted and issued prior to such conversion except for the Consideration Shares).

Conversion price: HK$0.43 per Conversion Share which, for the avoidance of doubt, shall be subject to adjustment provided in the Convertible Bonds. The conversion price represents:

(i) a premium of approximately 22.86% over the closing price per Share of HK$0.35 as quoted on the Latest Practicable Date;

(ii) the closing price per Share of HK$0.43 as quoted on the Stock Exchange on the Last Trading Day;

(iii) the average closing price per Share of approximately HK$0.43 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 3.70% to the average closing price per Share of approximately HK$0.4465 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 40.07% over the audited consolidated net assets value attributable to the Shareholders per Share of approximately HK$0.307 as at 31 December 2011;

(vi) a premium of approximately 58.09% over the unaudited consolidated net assets value attributable to the Shareholders per Share of approximately HK$0.272 as at 30 June 2012; and

(vii) a discount of approximately 23.89% to the unaudited pro-forma consolidated net assets value attributable to the Shareholders per Share of approximately HK$0.565 as at 31 December 2011.

The conversion price of the Convertible Bonds was determined based on arm's length negotiations between the Company and the Vendor with reference to the prevailing market prices of the Shares as quoted on the Stock Exchange.

Conversion period:	The period commencing from the Business Day immediately after two months of the Bond Issue Date and ending on the Bond Maturity Date, both dates inclusive.
Redemption:	Unless previously redeemed, converted or purchased and cancelled, the Company shall redeem each Convertible Bond then outstanding at a value equal to the aggregate principal amount then outstanding on the Bond Maturity Date by issuing Shares to the Bondholder at the conversion price of HK$0.43 per Conversion Share, subject to adjustment provided in the Convertible Bonds.

The Company shall, on the occurrence of any event of default (as specified in the terms and conditions of the Convertible Bonds), redeem all the Convertible Bonds then outstanding at a value equal to the aggregate of the principal amount outstanding under the Convertible Bonds by issuing Shares to the Bondholder at the conversion price of HK$0.43 per Conversion Share, subject to adjustment provided in the Convertible Bonds. In the event that such conversion will result in the non-compliance with the public float requirements as required under Rule 8.08 of the Listing Rules or will result in a change of control (as defined in the Takeovers Code) in the Company, the Company has no obligation to issue Shares to the Bondholder until the public float requirements can be met and there will be no change of control (as defined in the Takeovers Code) in the Company upon such conversion. Except as otherwise provided, the Convertible Bonds shall not be redeemed or repaid prior to the Bond Maturity Date.

Ranking:	The Convertible Bonds constitute direct unconditional, unsubordinated and unsecured obligations of the Company and rank at least pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other statutory exceptions) equally with all other present and future unsubordinated and unsecured obligations of the Company.
Transferability:	The Convertible Bonds shall not be transferable without prior written consent of the Company.
Voting rights:	The Convertible Bonds shall not confer on the Bondholder(s) the right to vote at any general meetings of the Company.
Listing:	The Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange.
Covenants in relation to the conversion rights:	So long as any Convertible Bond shall remain convertible the Company shall, unless with the prior written approval of all the Bondholders, among other things:

(a) not make any redemption of share capital, share premium account or capital redemption reserve involving any repayment to Shareholders either in cash or in specie (other than as contemplated under the S&P and Subscription Agreement or to the Shareholders having the right on a winding up of the Company to return of capital in priority to other Shareholders) or reduce any uncalled liability in respect thereof;

(b) not issue or pay up any securities by way of capitalisation of profits or reserves other than (1) by the issue of fully paid Shares to the Shareholders or (2) by the issue of fully-paid share capital of the Company (other than Shares) to the holders thereof of the same class;

(c) not in any way modify the rights attaching to the Shares or create or issue or permit to be in issue any other class of share capital of the Company carrying any right to income or capital which is more favourable in any respect than the corresponding right attaching to the Shares or attach any special rights or privileges to any such other class of the share capital of the Company provided that nothing in this paragraph (c) shall prevent any consolidation or sub-division of the Shares; and

(d) if an offer is made to all Shareholders (or all Shareholders other than the offeror and/or any offeror controlled by the Company and/ or persons acting in concert with the offeror) to acquire all or a proportion of the Shares forthwith give notice of such offer to the Bondholders and use its reasonable endeavours to procure that a like offer is extended to the holders of any Shares allotted or issued pursuant to the exercise by Bondholders of their rights of conversion by reference to a Conversion Date falling during the period of such offer; publication of a scheme of arrangement under the laws of Bermuda or a voluntary arrangement under any applicable law providing for the acquisition by any person of the whole or any part of the Shares shall be deemed to be the making of an offer.

Event of Default:

(a) if there is a default in the performance or observance by the Group of any obligations set out in the Convertible Bonds and (except where such failure is not capable of remedy) such default shall continue for ten (10) Business Days after written notice of such default shall have been given to the Company by the Bondholder;

(b) if an order is made or an effective resolution is passed for winding up, liquidation or dissolution of the Company or any of its subsidiaries;

(c) if the holder of any encumbrance takes possession or a receiver is appointed of the whole or material part of the assets or undertaking of the Company and of its subsidiaries;

(d) if the Company or any of its subsidiaries ceases or threatens to cease to carry on its business or a part thereof which is a material part of the business of the Group taken as a whole;

(e) if the Company or any of its subsidiaries is unable to fulfil any of its obligations for or in respect of its financial indebtedness as and when they fall due or the Company or any such subsidiary shall initiate or consent to proceedings relating to itself under any applicable bankruptcy, reorganisation or insolvency law or make an assignment for the benefit of, or enter into any composition with, its creditors;

(f) if the trading of the Shares on the Stock Exchange is withdrawn or suspended other than for a temporary suspension of trading for a period of not more than 14 consecutive Business Days;

(g) if it shall become unlawful for the Company to perform all or any of its obligations under the Convertible Bonds or the Convertible Bonds shall for any reason cease to be in full force or effect or shall be declared to be void or illegal by any court of competent jurisdiction;

(h) if there are any litigation, arbitration, prosecution or other legal proceedings outstanding for the time being against the Company or any of its subsidiaries, or any litigation, arbitration, prosecution or other legal proceedings involving such amount are threatened against the Company or any of its subsidiaries, which may have a significant financial impact on the Group and/or may have a material adverse effect on the operations or the financial position of the Group taken as a whole; and

(i) if any representation or warranty made or deemed to be made by the Company in the S&P and Subscription Agreement proves to have been incorrect or misleading in any material respect.

Company's undertakings: So long as any Convertible Bond shall remain convertible the Company shall (among other things) not effect any consolidation or amalgamation with, or merger into any other corporation, or any sale or transfer of all or substantially all of the assets of the Company without the written consent of the majority of Bondholder(s) (such consent not to be unreasonably withheld or delayed). In case of any consolidation or amalgamation of the Company with, or merger of Company into, any other corporation (other than a consolidation or amalgamation or merger in which the Company is the continuing corporation), or in case of any sale or transfer of all or substantially all of the assets of the Group, the Company shall use its best endeavours to cause the corporation formed by such consolidation or amalgamation or the corporation into which the Company shall have been merged or the corporation which shall have acquired such assets, as the case may be, to execute with the holders of all Convertible Bonds then outstanding a supplemental agreement providing that the holder of each Convertible Bond then outstanding shall have the right, during the period such Convertible Bond shall be convertible and to the full extent permitted by law and regulations (including without limitation the Takeovers Code and the Listing Rules), to convert such Convertible Bond into the kind and amount of shares or stock and other securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Convertible Bond might have been converted immediately prior to such consolidation, amalgamation, merger, sale or transfer provided that such conversion shall not result in non-compliance with the public float requirements under Rule 8.08 of the Listing Rules for the Company. Such provisions shall similarly apply to successive consolidations, amalgamations, mergers, sales or transfers.

The conversion price for the Convertible Bonds will be subject to adjustment in certain events as provided in the Convertible Bonds, a summary of which is set out below:

(i) any alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification;

(ii) the issue of Shares by the Company credited as fully paid to Shareholders by way of capitalization of profits or reserves (including any share premium account), including Shares paid up out of distributable profits or reserves and/or share premium account, except where the Shares are issued in lieu of the whole or any part of a specifically declared cash dividend so long as such declared dividend does not constitute a Capital Distribution (as defined in sub-paragraph (iii) below);

(iii) the making or payment of dividend or distribution of cash or assets in specie or other property by way of capitalization of reserves ("Capital Distribution") to the Shareholders;

(iv) the issue of Shares to all or substantially all Shareholders as a class by the Company by way of rights, or issue or grant to all or substantially all Shareholders as a class, by way of rights, of options, warrants or other rights to subscribe for or purchase any Shares, in each cases at less than the average of the closing prices for Share for the five consecutive trading days ending on the trading day immediately preceding such date (the "Current Market Price") per Share on the date of the announcement of the terms of such issue or grant;

(v) the issue of any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares) to all or substantially all Shareholders as a class by the Company, by way of rights, or the grant to all or substantially all Shareholders as a class, by way of rights, of any options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares);

(vi) except for the issue of any share options under the Share Option Scheme or the share option scheme dated 7 May 2001 and the issue of shares upon the exercise of the share options granted under the Share Option Scheme or the share option scheme dated 7 May 2001, the issue (otherwise than as mentioned in sub-paragraph (v) above) by the Company wholly for cash of any Shares (other than Shares issued on the exercise of rights under the Convertible Bonds or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or the issue or grant of (otherwise than as mentioned in sub-paragraph (v) above) options, warrants or other rights to subscribe or purchase Shares in each case at a price per Share which is less than of 80% of the Current Market Price on the date of announcement of the terms of such issue;

(vii) except in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within the provisions of this sub-paragraph (vii), the issue of any securities (other than the Convertible Bonds) by the Company or any subsidiary which by their terms of issue carry rights of conversion into, or exchange or subscription at a total effective consideration per Share which is less than 80% of the Current market Price on the date of the announcement of the terms of issue of such securities; and

(viii) any modification of the rights of conversion, exchange or subscription attaching to any such securities mentioned above (other than in accordance with the terms applicable to such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 80% of the Current Market Price on the last dealing day preceding the date of announcement of the proposals for such modification.

The Directors (including the independent non-executive Directors) consider that the issue of the Consideration Convertible Bonds as part of the consideration for the Acquisition and the issue of the Subscription Convertible Bonds for Subscription is fair and reasonable and in the interests of the Company and the Shareholders as a whole. The issue of the Consideration Convertible Bonds will pose less pressure on the cash resources of the Company, which can otherwise be utilized for the Group's general working capital purposes. Besides, the proceeds from the Subscription is primarily intended, but not restricted to be used for property development of the Acquired Group, which provides additional working capital for the operation of the Group, especially for the property business after completion of the Acquisition.

Tax indemnity

Pursuant to the S&P and Subscription Agreement, the Vendor will, at Completion, enter into a deed of indemnity in favour of the Company, Tianranju and Tianhe (the "Deed of Indemnity") whereby the Vendor will undertake to indemnify and keep indemnified the Company (for itself and as trustee for the Acquired Group) and any member of the Acquired Group against any loss or liability suffered or incurred by the Company or any member of the Acquired Group including but not limited to, any diminution in the value of the assets of or shares in any member of the Acquired Group, any payment made or required to be made by the Company or any member of the Acquired Group and any costs and expenses incurred as a result of or in connection with any claim incurred by any member of the Acquired Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Completion Date or any event on or before the Completion Date whether alone or in conjunction with other circumstances and whether or not such taxation is chargeable against or attributable to any other person, firm or company.

Application for Listing

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares to be issued upon conversion pursuant to the terms and conditions of the Convertible Bonds.

Shareholding Structure of the Company

As at the Latest Practicable Date, except for the outstanding 42,056,200 share options granted under the Share Option Scheme, the Company has no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares. The following table sets out the shareholding structure of the Company (i) immediately after the issue of the Consideration Shares (assuming that there will be no change in the issued share capital of the Company other than the issue of the Shares pursuant to the exercise of option granted under the Share Option Scheme from the Latest Practicable Date up to the Completion Date); and (ii) immediately after full exercise of the conversion rights attaching to the Convertible Bonds (assuming that there will be no change in the issued share capital of the Company, other than the issue of the Consideration Shares and the Shares pursuant to the exercise of options granted under the Share Option Scheme, from the Latest Practicable Date up to the exercise in full of the conversion rights attaching to the Convertible Bonds):

			Immediately after the issue of the Consideration Shares and before the conversion of the Convertible Bonds				**After the issue of the Consideration Shares and upon full exercise of the conversion rights attaching to the Convertible Bonds**			
	As at the Latest Practicable Date		**Assuming none of the outstanding share options granted under the Share Option Scheme will be exercised**		**Assuming all the outstanding share options granted under the Share Option Scheme will be exercised**		**Assuming none of the outstanding share options granted under the Share Option Scheme will be exercised**		**Assuming all outstanding share options granted under the Share Option Scheme will be exercised**	
	No. of Shares	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**
The Vendor and parties acting in concert with it *(Note 4)*	363,265,000	32.84	891,171,976	54.54	891,171,976	53.17	1,756,288,254	70.28	1,756,288,254	69.12
Directors										
Zhang Zhao Dong *(Note 1)*	3,956,000	0.36%	3,956,000	0.24%	14,470,050	0.86%	3,956,000	0.16%	14,470,050	0.57%
Zheng Fu Shuang *(Note 2)*	200,019,000	18.08%	200,019,000	12.24%	200,019,000	11.93%	200,019,000	8.00%	200,019,000	7.87%
Chen Geng *(Note 3)*	–	–	–	–	10,514,050	0.63%	–	–	10,514,050	0.41%
Xia Yang Jun *(Note 3)*	–	–	–	–	10,514,050	0.63%	–	–	10,514,050	0.41%
Xie Ke Hai *(Note 3)*	–	–	–	–	10,514,050	0.63%	–	–	10,514,050	0.41%
Sub-total	203,975,000	18.44%	203,975,000	12.48%	246,031,200	14.68%	203,975,000	8.16%	246,031,200	9.67%
Other non-public Shareholders										
Cheung Shuen Lung *(Note 5)*	36,890,100	3.34%	36,890,100	2.26%	36,890,100	2.20%	36,890,100	1.47%	36,890,100	1.45%
F2 Consultant Limited *(Note 6)*	60,671,600	5.49%	60,671,600	3.71%	60,671,600	3.62%	60,671,600	2.43%	60,671,600	2.39%
Sub-total	97,561,700	8.83%	97,561,700	5.97%	97,561,700	5.82%	97,561,700	3.90%	97,561,700	3.84%
Public Shareholders	441,260,340	39.89%	441,260,340	27.01%	441,260,340	26.33%	441,260,340	17.66%	441,260,340	17.37%
Total	1,106,062,040	100%	1,633,969,016	100%	1,676,025,216	100%	2,499,085,294	100%	2,541,141,494	100%

Notes:

(1) Zhang Zhao Dong is interested in 3,956,000 Shares and the share options to subscribe for 10,514,050 Shares.

(2) Zheng Fu Shuang directly holds these Shares.

(3) Each of Chen Geng, Xia Yang Jun and Xie Ke Hai is interested in the share options to subscribe for 10,514,050 Shares.

(4) The Bondholder shall not convert the Convertible Bonds which will cause the Company to be unable to meet the public float requirements as required under Rule 8.08 of the Listing Rules.

(5) Cheung Shuen Lung is a director of a subsidiary of the Company.

(6) F2 Consultant Limited holds the Shares as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC", a wholly-owned subsidiary of the Company) who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries. Li Yong Hui and Ying Yu Ling are the directors of FDC.

Information on Tianranju

Overview

Tianranju is an investment holding company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, the Vendor is interested in the entire issued share capital of Tianranju. Tianranju is directly interested in 100% of the equity interests in Hubei Tianranju and is indirectly interested in (i) 51% of the equity interests in Kunshan Hi-Tech; and (ii) 100% of the equity interests in Beijing Tianranju. Tianranju acquired 100% equity interests in Hubei Tianranju in March 2011, whereas Hubei Tianranju acquired 51% of the equity interests in Kunshan Hi-Tech from China Hi-Tech Group Company Limited, shares of which were owned as to approximately 24.4% by Peking Founder, in November 2011.

Hubei Tianranju is a company established in the PRC with limited liability and is principally engaged in property investment business and property leasing. Kunshan Hi-Tech is a company established in the PRC with limited liability and is principally engaged in property development business. Beijing Tianranju is a company established in the PRC with limited liability and is principally engaged in property leasing.

The original purchase cost of 100% equity interests in Hubei Tianranju by Tianranju was approximately RMB16.11 million; the original purchase cost of 51% equity interests in Kunshan Hi-Tech by Hubei Tianranju was approximately RMB152.64 million. Beijing Tianranju was established by Hubei Tianranju in June 2012 with registered capital of RMB1 million. The audited consolidated net assets value of Tianranju attributable to owners of the parent as at 31 May 2012 was approximately RMB23.8 million.

Set out below is a summary of the audited financial information on Tianranju and Hubei Tianranju as extracted from Appendix II(B) and Appendix II(A) to this circular respectively:

Tianranju

	For the period from 7 October 2010 (date of incorporation) to 31 December 2010 *(RMB'000)*	For the year ended 31 December 2011 *(RMB'000)*	For the five months ended 31 May 2012 *(RMB'000)*
Audited profit/(loss) before tax for the year/period	(23)	12,541	(7,905)
Audited total comprehensive income/(loss) for the year/period attributable to owners of the parent	(23)	11,411	(3,803)

Hubei Tianranju

	For the year ended 31 December 2009 *(RMB'000)*	For the year ended 31 December 2010 *(RMB'000)*	For the year ended 31 December 2011 *(RMB'000)*	For the five months ended 31 May 2012 *(RMB'000)*
Audited profit/(loss) before tax for the year/period	7,911	8,335	10,392	(7,867)
Audited total comprehensive income/(loss) for the year/period attributable to owners of the parent	5,226	5,901	8,334	(3,775)

Please refer to the sections headed "(I) Management discussion and analysis of Hubei Tianranju Group" and "(II) Management discussion and analysis of Tianranju Group" in Appendix IV to this circular for the detailed discussion on the financial performance of Hubei Tianranju and Tianranju.

Property interests owned by Hubei Tianranju and its subsidiary

Hubei Tianranju now possesses (i) seven State-owned Land Use Right Certificates and seven Building Ownership Certificates for the International Building of Wuhan and the land on which this building is constructed; and (ii) a Collectively-owned Land Use

Right Certificate for a parcel of land located at Huangpo District of Wuhan city. As advised by the Company's PRC legal counsel, all the certificates are currently legal and valid.

Kunshan Hi-Tech now possesses (1) two State-owned Land Use Right Certificates for two parcels of land with an aggregated area of 288,518 square metres; (2) two Planning Permits for Construction Land for the aforesaid two parcels of land; (3) twenty six Planning Permits for Construction Works with the aggregated floor area of 109,741.91 square metres; (4) three Commencement Permits for Construction Works with the aggregated floor area of 109,741.91 square metres; and (5) two Pre-sale Certificate for Commodity Units with aggregated floor area of 88,736.04 square meters. As advised by the Company's PRC legal counsel, all the certificates and permits above are currently legal and valid.

1. International Building of Wuhan

International Building of Wuhan is an A-grade office building with total gross floor area of approximately 35,000 square meters. Hubei Tianranju owns 26,963.32 square meters of gross floor area in the International Building of Wuhan, equivalent to approximately 77% of the total gross floor area of International Building of Wuhan. It is located in Wuguang business district, one of the four major business areas of Wuhan with established transportation network, as well as hotel and other business related facilities. Such business district has successfully attracted a lot of large scale renowned domestic and international corporations to set up their Wuhan offices there. For the three years ended 31 December 2011 and the five months ended 31 May 2012, the average occupancy rate of International Building of Wuhan based on the gross floor area owned by Hubei Tianranju was approximately 80.9%, 97.4%, 99.2% and 99.5%, respectively. The current monthly rental of International Building of Wuhan was lower than that in Wuguang business district as it is situated at the outskirt areas of the Wuguang business district and it was built in 1993 with its tenants mainly being small to medium-sized companies. For further details, please refer to the paragraph headed "Overview of the PRC property industry – 4. Office rental markets of Beijing and Wuhan" in this letter.

Hubei Tianranju now owns the use right of the land with an aggregated area of 761.91 square meters on which the International Building of Wuhan is constructed. The planned use of the land is for commercial service, and the land use right is granted by allocation. Hubei Tianranju obtained the State-owned Land Use Right Certificates of the land in September 2009. Hubei Tianranju shall obtain the approval from the land authority at city or county level if it plans to transfer the aforementioned allocated land use right; after obtaining such approval, the transferee shall handle the granting procedures and pay the premium for the land use right.

Since Hubei Tianranju plans to possess and operate leasing business of International Building of Wuhan on a long term basis, it will not transfer the ownership of International Building of Wuhan or the related land use right. It is the responsibility of the transferee to handle the granting procedures, or pay any premium for transferring. Thus, the requirement of approval for transferring the land use right will not have any adverse impact on the current leasing business of Hubei Tianranju.

According to applicable PRC laws and regulations, for the rental of properties being constructed on allocated land, part of the rental income which represents the revenue from the land should be paid to the relevant government department. Based on the requirement by Housing Bureau of Jianghan District of Wuhan (武漢市江漢區房管局), Hubei Tianranju should pay an annual sum of RMB50,000 as revenue from the land and rental registration fee and this will continue after Completion.

As advised by the Company's PRC legal adviser, the acquisition of Tianranju by the Company is not subject to any approval by PRC governmental department because of the fact that Hubei Tianranju owns the aforesaid allocated land use right. Besides, if Hubei Tianranju remains as the owner of the subject land use right, it is permitted by the PRC law for the Group to dispose of its equity interest in Hubei Tianranju after Completion even if the abovementioned transfer restriction has not yet been rectified.

Hubei Tianranju has completed the registration and filing procedure of the leasing of housing at Wuhan Municipal Housing Support and Building Administration Bureau in respect of various leasing contracts of International Building of Wuhan, and now possesses the Recordal Certificate of Rental Housing ((Han) Fangzuzhengzi No.12082), which is valid from 28 January 2012 to 27 January 2013. The Certificate is an evidence of completing the registration and filing procedure of the signed leasing contracts at the competent authority, rather than a prepositive permit or license. The validity of leasing contract will not be affected even without such registration and filing procedure.

2. PKU Resource – Li Cheng Project in Kunshan

PKU Resource – Li Cheng Project is wholly owned by Kunshan Hi-Tech, a 51% owned subsidiary of Hubei Tianranju. PKU Resource – Li Cheng Project is located in Hongqi Industrial District, Bacheng Town, Kunshan city, Jiangsu, which is in the Yangchenghu Recreation and Tourism District (陽澄湖休閒旅遊片區) under the overall city development plan of Kunshan. The total planned site area of PKU Resource – Li Cheng Project is approximately 655,567 square meters and is expected to develop under two phases. The total planned site area of Phase I development is approximately 451,567 square meters, which will comprise low-rise apartment buildings, an arts exhibition centre, a creative arts workshop and auxiliary facilities. The art exhibition centre and creative arts workshop are expected to occupy less than 3% of the total gross floor area of Phase I development and are additional facilities to promote the PKU Resource – Li Cheng Project as a residential project in a local cultural and technology hub to be developed in Kunshan area. The total planned site area of Phase II development is approximately 204,000 square meters, which will comprise residential buildings, an electronic arts complex (including offices, exhibition centres and training centres) and auxiliary business facilities. The development period for Phase I development is expected to be from 2011 to 2018. The total expected investment amount of Phase I development is approximately RMB4.67 billion. As at 31 August 2012, approximately RMB450 million had been invested in PKU Resource – Li Cheng Project. It is expected that Kunshan Hi-Tech will need to make additional investment of approximately RMB4.22 billion to complete Phase I development and the expected capital commitment required for the two years ending 31 December 2014 is approximately RMB350 million. The target buyers for the Phase I development will be those from Shanghai, Suzhou and Kunshan areas who would like to have better and more relax living environments.

The pre-sale of the villas with total gross floor area of approximately 41,463 square metres under Phase I development has been formally commenced in March 2012. By 6 November 2012, 18 units or equivalent to approximately 4,768.87 square metres of gross floor area at a total sales consideration of approximately RMB53.2 million under the Phase I development has been sold. Deposit have been received for another 4 units representing approximately 1,142.21 square metres of gross floor area. It is expected that the relevant sales will be recognised in 2013. Proceeds from the pre-sale of properties in 2012 and 2013 are expected to be approximately RMB127.7 million and RMB344.6 million respectively. From 2014 onwards, construction of part of the Phase I development is expected to complete and that the bulk sale of such units shall commence, which is expected to generate substantial cash flow. Also, land premium and part of the construction costs will have already been paid prior to 2014. Therefore, it is expected Kunshan Hi-Tech will be able to self-finance the project after 31 December 2014 by proceeds from sale of its properties without material additional capital commitment. As of 31 August 2012, approximately RMB318 million of costs incurred (of which RMB111.2 million is construction cost) and approximately 9.7% of Phase I development has been completed. There is currently no definite timetable for Phase II development. Depending on the progress of Phase I development, Kunshan Hi-Tech will continuously assess the prevailing market condition, the availability of funds and the macro economic environment to formulate the detailed timetable, capital commitment and project development plan for Phase II development.

The Directors confirm that all the requisite approvals for the aforementioned projects have been obtained in accordance with the progress of the development.

Phase I development comprises three pieces of land and Kunshan Hi-Tech has obtained the land use rights for and commenced development of two out of the three pieces of land with the total site area of approximately 288,518 square metres as at the Latest Practicable Date. As stipulated in the land use right granting contract, there are certain regular restrictions on this project like plot ratio, height limitation, building density, green space proportion. There is no requirement for the construction of public facilities, economically affordable housing, reasonably priced housing or low-rent housing. The land use rights of the third piece of land of approximately 163,049 square metres for Phase I development is expected to be obtained with land premium of approximately RMB200 million, which is best estimation made by the Directors based on the current market conditions, being part of the abovementioned RMB4.67 billion total investment amount of Phase I development which should be borne by Kunshan Hi-Tech. As at the Latest Practicable Date, no land use right granting contract in relation to the third piece of land had been entered into. Based on the best estimation by the Directors with reference to the normal time required for the "Public Tender, Auction and Listing-for-Sale"（招、拍、掛）process as depicted by the prevailing rules and regulations in the PRC, it is expected that the aforementioned "Public Tender, Auction and Listing-for-Sale" process for the land use rights of the third piece of land for Phase I development will be completed and the land use right will be obtained by Kunshan Hi-Tech by January 2013. Phase II development shall comprise two pieces of land and Kunshan Hi-Tech will consider the timing of acquiring the land based on the actual progress of Phase I development and will by then negotiate with relevant authorities including the local bureau of land and resources for the land premium required. At present, no agreement has been reached with the relevant regulators regarding the land premium of such two pieces of land. Kunshan Hi-Tech will apply to acquire such two pieces of land through the normal "Public Tender, Auction and Listing-for-Sale" process. Should Kunshan Hi-Tech fail to acquire such two pieces of land, Kunshan Hi-Tech will look for other pieces of land available nearby and formulate the development plan for Phase II development accordingly. Upon completion of the Acquisition, the Group (including Kunshan Hi-Tech) will closely monitor the property market of Kunshan city and prepare for the bidding of the abovementioned two pieces of land for Phase II development of the project. Considering Kunshan Hi-Tech's success in Phase I development of the PKU Resource – Li Cheng Project, the Directors are optimistic of Kunshan Hi-Tech's ability to acquire the appropriate lands for Phase II development of the project. Due to the uncertain nature of Phase II development, when determining the consideration for the Acquisition, no value has been assigned to Phase II development.

3. A parcel of land at Huangpo District

The land was located at Lamei Village Yaoji Town, Huangpo District, Wuhan city, Hubei with a total site area of approximately 486,669.1 square meters. Hubei Tianranju acquired the land by way of Si Huang Auction（四荒拍賣）. The land is collectively owned and designated for agriculture development and ecotourism purposes. Should Hubei Tianranju want to transfer the land use rights of the property, it is required to obtain consent from the related Rural Collective Sector Organization and endorsement by the village/township people's government prior to submission to the county people's government for its approval. No premium is required for transferring the land use right.

It is the intention of Hubei Tianranju to use the land for long term investment purpose in accordance with the approved usage of the land but there is currently no definite plan. Depending on the overall business development progress, Hubei Tianranju will formulate the detailed timetable and business development plan on the land when appropriate. Since Hubei Tianranju plans to hold the land for long term investment purpose and has no intention to transfer the ownership, the abovementioned approval requirements for transferring the land use right will not have any adverse impact on Hubei Tianranju.

Information on Tianhe

Overview

Tianhe is an investment holding company incorporated in Hong Kong with limited liability. As at the Latest Practicable Date, the Vendor is interested in the entire issued share capital of Tianhe. Tianhe directly owns 90% of the equity interests in Tianhe Property which in turn owns 95% of the equity interests in Ezhou Jinfeng. Tianhe acquired 90% equity interest in Tianhe Property in March 2011, whereas Tianhe Property acquired 95% equity interest in Ezhou Jinfeng in June 2009. Tianhe Property is a company established in the PRC with limited liability and is principally engaged in property development, leasing and sales. Ezhou Jinfeng is a company established in the PRC with limited liability and is principally engaged in property development.

The original purchase cost of 90% equity interests in Tianhe Property by Tianhe was approximately RMB81.73 million and the original purchase cost of 95% equity interests in Ezhou Jinfeng by Tianhe Property was approximately RMB62.60 million. The audited consolidated net assets value of Tianhe attributable to owners of the parent as at 31 May 2012 was approximately RMB191.7 million.

Set out below is a summary of the audited financial information on Tianhe and Tianhe Property as extracted from Appendix II(D) and Appendix II(C) to this circular respectively:

Tianhe

	Period from 6 October 2010 (date of incorporation) to 31 December 2010 *(RMB'000)*	**For the year ended 31 December 2011** *(RMB'000)*	**For the five months ended 31 May 2012** *(RMB'000)*
Audited profit/(loss) before tax for the year/period	(15)	192,458	(1,123)
Audited total comprehensive income/(loss) for the year/period attributable to owners of the parent	(15)	192,692	(1,011)

Tianhe Property

	For the year ended 31 December 2009 *(RMB'000)*	For the year ended 31 December 2010 *(RMB'000)*	For the year ended 31 December 2011 *(RMB'000)*	For the five months ended 31 May 2012 *(RMB'000)*
Audited profit/(loss) before tax for the year/period	52	(689)	(2,857)	(1,122)
Audited total comprehensive income/(loss) for the year/period attributable to owners of the parent	52	(689)	(2,857)	(1,122)

Please refer to the sections headed "(III) Management discussion and analysis of Tianhe Property Group" and "(IV) Management discussion and analysis of Tianhe Group" in Appendix IV to this circular for detailed discussion on the financial performance of Tianhe Property and Tianhe.

Property interests owned by Tianhe Property and its subsidiary

Tianhe Property now possesses three State-owned Land Use Right Certificates for three parcels of land with an aggregated area of 433,241.5 square metres.

Ezhou Jinfeng now possesses three State-owned Land Use Right Certificates for three parcels of land with an aggregated area of 241,355.7 square metres.

As advised by the Company's PRC legal counsel, all the aforesaid State-owned Land Use Right Certificates are legal and valid.

1. Honglianhu Project in Ezhou

Honglianhu Project is wholly owned by Tianhe Property and its subsidiary Ezhou Jinfeng. It is located in the Honglianhu Tourism New Town (紅蓮湖旅遊新城) in Ezhou city, Hubei, which is part of the Honglianhu Recreation and Vacation Area (紅蓮湖旅遊度假區) ("Honglianhu Vacation Area"). Honglianhu Vacation Area is one of the first Provincial-level tourism districts approved by the government of Hubei province in 1994. Currently, Honglianhu Vacation Area has a golf club comprising an international standard 18-holes golf course, hotel and business centre; a water sports training and competition base, as well as other travel related auxiliary facilities.

The site area of Honglianhu Project is approximately 675,000 square meters, which will comprise low-rise apartment buildings, high-rise residential buildings and other travel facilities. Since the removal of the current buildings on the lands is still in process, Tianhe Property and Ezhou Jinfeng are not able to commence the construction of this project. The removal and resettlement are carried out with the assistance from the local government and are expected to be completed in April 2013. After which, Tianhe Property and Ezhou Jinfeng will apply for the construction planning permits and construction permits, and commence the construction under the conditions set by the construction planning authority. Therefore, Honglianhu Project is currently under planning and preparation stage with no construction cost being incurred up to the Latest Practicable Date. Based on the above, it is expected that the construction of Honglianhu Project will be started in 2013 and completed by 2019. All the relevant land use rights of Honglianhu Project have been properly obtained. The total expected investment amount of Honglianhu Project is approximately RMB3.32 billion and the expected capital commitment required for the two years ending 31 December 2014 is approximately RMB330 million. The initial capital commitment required for the development of the Honglianhu Project prior to 2014 is expected to be funded by (i) the Group's internal resources; (ii) external funding or funds to be provided by PKU Resource pursuant to its confirmation as described in the paragraph headed "Reasons for the Acquisition and the Subscription" in this letter; and (iii) proceeds from pre-sale which is expected to commence in 2013/2014. After 2014, the bulk sale of units shall commence, which is expected to generate substantial cash flow to fund the remaining development of the project. Therefore, it is expected the project will be able to self-finance itself by proceeds from sale of its properties after 31 December 2014 without additional material capital commitment required.

The Directors confirm that all the requisite approvals for the aforementioned projects have been obtained in accordance with the progress of the development.

Adverse opinion in respect of the financial information of Tianhe Property Group and Tianhe Group

As stated in Appendix II(C) and Appendix II(D) to this circular, adverse opinion has been issued in respect of (i) the state of affairs of Tianhe Property Group as at 31 December 2009, 2010 and 2011 and the consolidated results and cash flows of Tianhe Property Group for the three years ended 31 December 2011 and the five months ended 31 May 2012; and (ii) the state of affairs of Tianhe Group as at 31 December 2011 and the consolidated results and cashflows of Tianhe Group for the year ended 31 December 2011 and the five months ended 31 May 2012. However, despite the adverse opinion issued, the reporting accountants are of the opinion that the financial information of Tianhe Property Group (including Tianhe Property) and Tianhe Group (including Tianhe) gives a true and fair view of (i) the state of affairs of Tianhe Property Group as at 31 May 2012 and of Tianhe Property as at 31 December 2009, 2010 and 2011 and 31 May 2012; and (ii) the state of affairs of Tianhe Group as at 31 December 2010 and 31 May 2012 and of Tianhe as at 31 December 2010 and 2011 and

31 May 2012 and the consolidated results and cashflows of Tianhe Group for the period from 6 October 2010 (date of incorporation) to 31 December 2010. For further details, please refer to Appendix II(C) and Appendix II(D) to this circular.

The adverse opinions were mainly due to the results of two subsidiaries namely 武漢楚天時代創業投資擔保有限公司 (Wuhan Chutian Era Venture & Guarantee Company Limited) ("Chutian Era") and 武漢宏博投資有限公司 (Wuhan Hongbo Investment Company Limited) ("Hongbo") were not consolidated from the date of acquisition to their respective date of disposal, which is required by HKAS27 (Revised) "Consolidated and Separate Financial Statements". As at the time of the preparation of the accountants' reports as contained in this circular, these two subsidiaries had been disposed of and Tianhe Property Group and Tianhe Group did not have access to the books and records of the two subsidiaries.

Tianhe Property disposed of its interests in Chutian Era and Hongbo in May 2012 and November 2010 respectively. At the time of entering into the S&P and Subscription Agreements, Chutian Era and Hongbo had already been disposed of by the Acquired Group. The Directors consider that the preparation of financial information to consolidate the results of Chutian Era and Hongbo would not be feasible as these subsidiaries had already been disposed of by the Acquired Group and this would also involve expense and delay for the purpose of the preparation of this circular, which would not be in the interests of the Company and the Shareholders.

As Tianhe Property had already disposed of its interests in Chutian Era and Hongbo by the end of May 2012, the financial position of Tianhe Property Group and Tianhe Group as at 31 May 2012 were not affected and the reporting accountants also confirm this by stating that the financial information of Tianhe Property Group and Tianhe Group as at 31 May 2012 gives a true and fair view of their states of affairs. In this regard, the Directors consider that the consideration for the Acquisition is fair and reasonable with reference to the audited consolidated net assets values of the Acquired Group as at 31 May 2012. The non-consolidation of the results of Chutian Era and Hongbo will no longer affect the results of Tianhe Property Group and Tianhe Group since the dates of the relevant disposal, which were before the Completion Date. In addition, as the results of the Acquired Group will only be consolidated into the Group's financial statements from the Completion Date, the non-consolidation of Chutian Era and Hongbo by Tianhe Property Group and Tianhe Group before the Completion will not have any impact on the Company's consolidated financial statements and audit opinion after the Completion. Upon completion of the Acquisition, the Group will review the accounting and internal control systems of the Acquired Group and implement necessary improvements to make sure proper books and records are retained and sufficient accounting and internal control procedures are in place to protect the interests of the Group and the Shareholders.

Given the fact that Chutian Era and Hongbo are not members of the Acquired Group under the Acquisition, the Directors are of the view that the information contained in this circular provides sufficient information to enable the Shareholders to make an informed assessment of the Acquisition and the aforesaid adverse opinion on Tianhe Property Group and Tianhe Group would not have material adverse implications on the transactions being contemplated under the S&P and Subscription Agreement.

Information on Vendor and Peking Founder Group

As at the Latest Practicable Date, the Vendor is a subsidiary of Peking Founder and the controlling shareholder of the Company with a shareholding interest of approximately 32.84% in the Company. Other than through the Vendor, Peking Founder does not hold any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. The Vendor is an investment holding company. Peking Founder Group is principally engaged in securities trading and brokerage; the information technology industry, including software and system development for the publishing sector and various government bureaus and financial institutions and hardware manufacturing for personal computers, chips, circuit boards and other terminal equipment; and healthcare and pharmaceutical industry, including hospitals, pharmaceuticals, logistics, equipment leasing and hospital management.

Reasons for the Acquisition and the Subscription

The Group is principally engaged in distribution of information products in Hong Kong and the PRC ("Distribution Business"). According to the 2011 annual report of the Company, the Group recorded audited profit attributable to owners of the parent of approximately HK$15.8 million for the year ended 31 December 2010 and audited loss attributable to owners of the parent of approximately HK$8.4 million for the year ended 31 December 2011. According to the 2012 interim report of the Company, the Group recorded unaudited loss attributable to owners of the parent of approximately HK$34.6 million for the six months ended 30 June 2012.

As stated in the annual report of the Company for the year ended 31 December 2011 and the interim report of the Company for the six months ended 30 June 2012, the Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance Shareholders' value.

In view of the intense competition of the Distribution Business and the loss-making results in 2011 and the first half of 2012, the Group has been looking for opportunity to diversify its existing business into a new line of business with growth potential. The Board has been active in seeking opportunities to diversify the Group's revenue stream in order to enhance Shareholders' value, and is optimistic about the expansion into the new PRC property business engaged by the Acquired Group.

The Acquisition provides an opportunity for the Group to tap into the PRC property market and to generate diversified income and additional cashflow.

In 2011, the property market in China saw a minor correction with surge in properties prices being slowed down and decrease in transaction volume, thanks to the austerity measures, including restriction on home purchases, imposed by the PRC government during the year. The Directors consider that while such correction resulted in a slowdown in the property market in the short term, it also helped curbing speculative activities which should be beneficial to the market in the long run. It is expected that the PRC Government will likely continue imposing such austerity measures on the property market in the short term. Besides, the stringent PRC banking policies may affect the debt financing ability of property developers.

Recently, however, the Directors noted that there are signs of bottoming out as the scale of decline has been narrowing continuously during second quarter of 2012 in the PRC property market, after the rate cut announced by the People's Bank of China in June 2012, preferential lending policies towards first-time home buyers and price cut by developers. The Directors believe that such monetary loosening policy is likely to continue and expect the PRC property price to start to stabilize in the second half of 2012. Given the PRC's continued economic growth, the resultant increase in disposable income per capita and urbanization, the Directors are optimistic towards the property market in China in the medium to long term. The Directors also consider the Company, being a listed company on the Stock Exchange, can serve as a better fund raising platform for Tianranju and Tianhe, which should partially alleviate the burden of Tianranju and Tianhe to raise funds themselves in the PRC.

As illustrated in the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular using the fair value on properties under development, investment properties and land use right determined with reference to the valuation as at 31 May 2012 prepared by LCH, as a result of the Acquisition, (i) the unaudited pro forma total assets of the Group as at 31 December 2011 will be increased by approximately HK$1,683 million to approximately HK$3,604 million; (ii) the unaudited pro forma total liabilities of the Group as at 31 December 2011 will be increased by approximately HK$768 million to approximately HK$2,350 million; and (iii) the unaudited pro forma net assets value attributable to owners of the parent of the Group as at 31 December 2011 will be increased from approximately HK$339.2 million to approximately HK$923.9 million. Whereas, instead of a comprehensive loss of approximately HK$9.2 million for the year ended 31 December 2011, the Group will record unaudited pro forma comprehensive income attributable to owners of the parent of approximately HK$284.4 million as a result of the Acquisition. Out of the unaudited pro forma comprehensive income of HK$284.4 million, a total of approximately HK$243.7 million was attributable to the one-off gain from bargain purchase of Tianhe Property and Hubei Tianranju by Tianhe and Tianranju, respectively, and approximately HK$47.7 million was attributable to the one-off gain from bargain purchase of the Acquired Group by the Group as a result of the Acquisition. Such gain from bargain purchase is not recurring in nature and will not have any continuous effect on the Enlarged Group.

As further illustrated in note 12 to the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular, should the estimated fair value adjustment on properties under development, investment properties and land use right be determined with reference to the valuation report as at 31 August 2012 issued by LCH in Appendix V to this circular, as a result of the Acquisition, (i) the unaudited pro forma total assets of the Enlarged Group as at 31 December 2011 would be approximately HK$3,629 million; (ii) the unaudited pro forma total liabilities of the

Enlarged Group as at 31 December 2011 would be approximately HK$2,360 million; (iii) the unaudited pro forma net assets attributable to owners of the parent of the Enlarged Group as at 31 December 2011 would be approximately HK$924.4 million; and (iv) the unaudited pro forma comprehensive income attributable to owners of the parent of the Enlarged Group for the year ended 31 December 2011 would be approximately HK$284.9 million.

International Building of Wuhan, which is owned by Hubei Tianranju as to approximately 77% in terms of the gross floor area, is a commercial building located in the central business area of Wuhan. With an average occupancy rate based on the gross floor area owned by Hubei Tianranju of around 99.2% and 99.5% for the year ended 31 December 2011 and five months ended 31 May 2012 respectively, International Building of Wuhan shall provide an immediate stable income stream for the Group upon completion of the Acquisition to complement the existing business. Upon Completion, the Company intends to retain International Building of Wuhan for rental purpose. The income may not be significant to the Group at the moment, but nonetheless it provides steady cashflow to the Group. In addition, the Directors are optimistic towards the future income growth from International Building of Wuhan, having considered the potential economic growth of Wuhan and Hubei province. Although the current monthly rental of International Building of Wuhan is lower than that in Wuguang business district as it is situated at the outskirt areas of the Wuguang business district and it was built in 1993 with its tenants mainly being small to medium-sized companies, the Company will evaluate whether there is a need to renovate the International Building of Wuhan, to engage in more promotional activities with the aim to promote the image of International Building of Wuhan so as to attract higher quality tenants and for rental appreciation. The Directors expect this could upgrade the overall image of and maximize the value generated form the building through attracting sizable companies with higher quality and higher rental income.

The PKU Resource – Li Cheng Project owned by Kunshan Hi-Tech is a combined property development project which features an arts exhibition centre, commercial properties and residential properties in Bacheng, Kunshan, Jiangsu province, which forms part of the Yangchenghu Recreation and Tourism District (陽澄湖休閒旅遊片區). Jiangsu province is ranked as one of the top Chinese provinces in terms of GDP per capita. Kunshan is located in southeastern part of Jiangsu province, adjacent to the border with the Shanghai Municipality, and is currently regarded as one of the most economically successful county-level administrations in China. Having considered the quality and location of the PKU Resource – Li Cheng Project and the potential economic growth of Kunshan city and Jiangsu province, the Directors consider that the Acquisition is a strategic move for the Group for future sustainable and steady development.

The Honglianhu Project, which is owned by Tianhe Property and its subsidiary Ezhou Jinfeng, is located in the Honglianhu Tourism New Town (紅蓮湖旅遊新城), Ezhou city, Hubei province. Traditionally an industrial and agricultural province, Hubei province ranked 11th in China in terms of GDP in 2011. The Honglianhu Vacation Area is one of the first Provincial-level tourism districts approved by the Hubei Provincial Government. The property project is located adjacent to Honglianhu Lake and

Honglianhu golf course, and is in close proximity to Wuhan city. The villa type of property of the project, coupled with the scenic surroundings and the established transportation network, is expected to be well received by potential buyers. The Directors are confident that the Honglianhu Project will generate long term investment return for the Group.

Although currently loss making, the PKU Resource – Li Cheng Project has commenced pre-sale in March 2012 and has been generating cash inflow to Kunshan Hi-Tech and by 6 November 2012, approximately 4,768.87 square metres of gross floor area have been sold. The Honglianhu Project is expected to start pre-sale in October 2013. Following the commencement of pre-sale of both projects upon completion of the Acquisition, both projects should be able to generate positive cashflow to the Group. The Company intends to sell all of the units of Phase I development in the PKU Resource – Li Cheng project and the Honglianhu Project upon completion.

Total expected capital commitment for Tianranju and Tianhe for the two years ending 31 December 2014 is estimated to be RMB680 million, which is expected to be funded by the Group's internal resources, bank borrowings and proceeds from the pre-sale and sale of properties. The Group is currently negotiating with various banks and other financial institutions for possible funding facilities but no definite agreement has been reached. Nonetheless, on top of the Entrusted Loan, the Group has received confirmation from the PKU Resource that it will procure necessary capital for the development of the PKU Resource – Li Cheng Project and the Honglianhu Project in the future of up to RMB680 million in the two years ending 31 December 2014, in the case where the Group is not able to obtain the required funding from the financial institutions in the PRC. PKU Resource is principally engaged in property development, real estate activities, trading and education investment. PKU Resource is a fellow subsidiary of Peking Founder, which in turn is the parent company of the Vendor, the controlling shareholder of the Company. The detailed terms of such capital procurement have not yet been determined, which may be in the form of borrowing and/or capital injection. The Group and PKU Resource will fully comply with the Listing Rules, the Takeovers Code and other relevant regulatory requirements when procuring such capital to the Group. It is expected that Tianranju and Tianhe should be able to self-finance their respective projects after 31 December 2014 without the financial assistance from PKU Resource. The Group will carefully assess the then market condition, the PRC government's policies towards PRC property markets as well as the availability of funding before deciding to proceed with the projects.

Further, the properties owned by the Acquired Group include both residential properties and commercial offices and therefore the Acquisition enables the Group to generate a more diversified income not only by selling residential properties but also by renting commercial offices.

Upon completion of the Acquisition, the Company plans to focus its resources in completing the Phase I development of PKU Resource – Li Cheng Project and Honglianlu Project. Based on the actual progress of Phase I development of PKU Resource – Li Cheng Project, the Company will consider the timing of acquiring the land for Phase II development. The Company will closely monitor the property market to identify other potential property development projects and may invest in other new projects after considering the then market performance, expected return, available financial resources, capital commitment required and other relevant factors. As at the Latest Practicable Date, no new project has been identified.

As disclosed in the paragraphs headed "Information on Tianranju" and "Information on Tianhe" in this letter, there is transfer restriction on the land use right of International Building of Wuhan and the land at Huangpo District and therefore, LCH, the independent valuer, has assigned no commercial value on the two properties. Despite the aforesaid, the Directors (including the independent non-executive Directors) are of the view that the acquisition of the two properties by the Group is fair and reasonable and in the interests of the Company and the Shareholders as a whole after taking into account (i) the Group intends to hold the interests in the two properties on a long term basis and has no intention to transfer the ownership. Therefore, the transfer restriction will not have any material adverse impact on the business of the Enlarged Group; (ii) it is expected that International Building of Wuhan shall provide an immediate stable income stream for the Group upon completion of the Acquisition; (iii) although no commercial value has been assigned, the two properties were valued at a total investment value of RMB169 million as at 31 August 2012 by LCH based on the valuation report in Appendix V to this circular; and (iv) provided that there is not any change in the planned use of the land and all the relevant procedures have been properly complied with, the Directors do not foresee any material obstacles in obtaining the necessary approvals in case the Enlarged Group plans to transfer the ownership.

Three Directors namely Mr Zhang Zhao Dong, Mr Chen Geng and Mr Xia Yang Jun have years of experience in property development and management in the PRC. Mr Zhang Zhao Dong and Mr Xia Yang Jun have held positions as directors and senior management of PKU Resource and have been engaged in the management of PKU Resource's property businesses. Mr Chen Geng has held position as general manager of Peking University Science Park Co., Ltd. and has been responsible for overseeing its property development and project management businesses. The Directors therefore consider that they have personnel among themselves that possess the relevant experience to engage in property development and property management business in the PRC.

Upon completion of the Acquisition, the Company intends to retain the existing employees of the Acquired Group. Depending on the actual development progress of the projects, the Company may recruit additional staff with relevant real estate development and management experience to support the business growth.

The Directors would like to draw the Independent Shareholders' attention to the paragraph headed "Risk factors" in this letter which sets out certain risk factors associated with the Acquisition. Having considered the risk factors (including relevant mitigating factors) as well as the benefits for the Acquisition set out above, the Directors (including the independent non-executive Directors) consider that the Acquisition and the terms of the S&P and Subscription Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Currently, the Vendor and its concert parties have no intention to make any change in the composition of the board of directors of the Company and intends to maintain the existing business and employment of the employees of the Group, while they will continue to seek opportunities to diversify to new businesses with an aim to achieve sustainable growth. They have no intention to introduce any major changes to the existing operation of the Group, including the redeployment of the fixed assets of the Group.

Further, the Directors (including the independent non-executive Directors) consider that the issue of the Subscription Convertible Bonds is fair and reasonable and in the interests of the Company and the Shareholders as a whole, as it provides additional working capital for the operation of the Group. The Company did not have any fund raising activities in the 12 months immediately preceding the Latest Practicable Date.

Adjusted Net Assets Value

Based on the valuation report prepared by LCH on the property interests owned by the Acquired Group on 31 May 2012, the Board is of the view that the audited net assets values ("**NAVs**") attributable to the owners of the parent of Tianranju and Tianhe as at 31 May 2012 shall be adjusted when considering the consideration of the Acquisition. Below please find the details of the adjustments with reference to note 8 to the unaudited pro forma financial information of the Enlarged Group as illustrated in Appendix III to this circular:

	Tianranju Group	**Tianhe Group**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Audited NAVs of Tianranju Group and Tianhe Group as at 31 May 2012	156,657	270,624	427,281
Capital injection by the vendor into Tianhe	–	99,933	99,933
Estimated fair value adjustment on properties under development, investment properties and land use rights	438,132	54,474	492,606
Deferred tax liabilities recognised in respect of fair value adjustment	(109,533)	(13,619)	(123,152)
Adjusted NAVs of Tianranju Group and Tianhe Group as at 31 May 2012	485,256	411,412	896,668
Non-controlling interests in NAVs of Tianranju Group and Tianhe Group	(288,594)	(41,786)	(330,380)
Adjusted NAVs of Tianranju Group and Tianhe Group attributable to the owners of the parent as at 31 May 2012	196,662	369,626	566,288

Note: RMB has been translated into HK$ in the exchange rate of RMB100 = HK$121.87 for the above illustration

The table below sets out the reconciliation of aggregate amounts of the property interests of the Acquired Group included in the consolidated balance sheet of the Acquired Group as of 31 May 2012 to the valuation amount of property interests of the Acquired Group as of 31 August 2012:

('000)	*RMB*
Net book value of property interests of the Acquired Group as of 31 May 2012	788,310 (Equals to approximately HK$960,713)
Movements for the period from 1 June 2012 to 31 August 2012	
– Additions, cost	33,806
– Additions, fair value gain	1,000
– (Less Depreciation)	(64)
Net book value of property interests of the Acquired Group as of 31 August 2012	823,052
Valuation surplus as of 31 August 2012	402,928
Valuation as of 31 August 2012 per Appendix V of this circular	
– 100% valuation amount	1,225,980
– Attributable to owners of the parent	812,480

Note: RMB has been translated into HK$ in the exchange rate of RMB100 = HK$121.87 for the above illustration

Due diligence by the Group on the Acquisition

The Company has conducted / undertaken the following procedures in order to ensure the feasibility of the prospect of the Acquired Group:

1. it has engaged a PRC legal adviser to issue legal opinion on (i) the status of the PRC subsidiaries of the Acquired Group; and (ii) the property interests owned by the Acquired Group;

2. it has engaged a reporting accountant to prepare accountants' reports for the Acquired Group for the three years ended 31 December 2011 and the five months ended 31 May 2012;

3. it has engaged a property valuer to perform property valuation for all the property interests owned by the Acquired Group;

4. it has conducted site visits on the property interests owned by the Acquired Group and discussed with the management of the Acquired Group to understand its business; and

5. it has conducted research on the industry overview regarding the future prospect of real estate industry in the PRC.

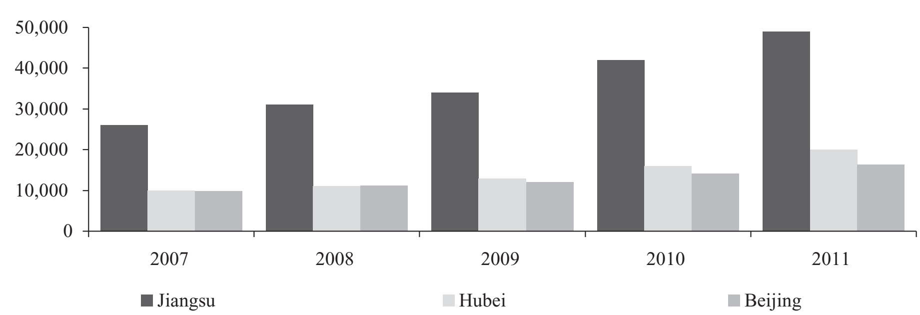
Save for (i) the adverse opinion in respect of the financial information of Tianhe Property Group and Tianhe Group, details of which are disclosed in Appendix II(C) and II(D) to this circular respectively; and (ii) the need for Hubei Tianranju to obtain approval before it can transfer the land use rights of the International Building of Wuhan and the parcel of land at Huangpo District, details of which are disclosed in this letter, no material irregularities have been found as a result of the due diligence conducted.

Overview of the PRC property industry

1. Economic development of Jiangsu province, Hubei province and Beijing

The nominal GDP of Jiangsu province, Hubei province and Beijing have shown a growing trend in the past few years. The graph below illustrates the respective nominal GDP of Jiangsu province, Hubei province and Beijing from 2007 to 2011:

Nominal GDP of Jiangsu province, Hubei province and Beijing (RMB1,000 millions)

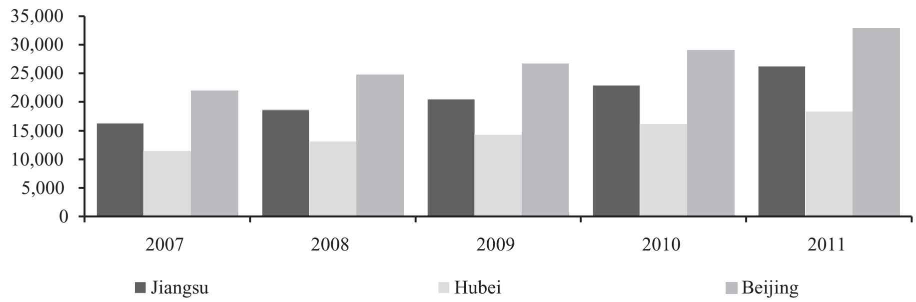


Source: Jiangsu Provincial Bureau of Statistics, Hubei Provincial Bureau of Statistics and Beijing Municipal Bureau of Statistics

The nominal GDP of Jiangsu province, Hubei province and Beijing experienced a 2007 to 2011 CAGR of approximately 17%, 20% and 13%, respectively. According to the National Bureau of Statistics of China, Jiangsu province ranked as one of the top Chinese provinces in terms of GDP per capita.

Benefited from the blooming economy, citizens in the PRC enjoy increasing living standard in terms of higher annual disposable income. The chart below sets forth the annual disposable income per capita of Jiangsu province, Hubei province and Beijing between 2007 and 2011.

Annual Disposable income Per Capita (RMB)



Source: Jiangsu Provincial Bureau of Statistics, Hubei Provincial Bureau of Statistics and Beijing Municipal Bureau of Statistics

The annual disposable income per capita of Jiangsu province, Hubei province and Beijing increased with a 2007 to 2011 CAGR of approximately 13%, 13% and 11%, respectively.

The continuous economic growth of Jiangsu and Hubei provinces as illustrated above is beneficial to the development and prospects of the property development projects owned by the Acquired Group, i.e., PKU Resource – Li Cheng Project in Kushan city, Jiangsu province and Honglianhu Project in Ezhou city, Hubei province, as well as the office leasing of International Building of Wuhan owned by the Acquired Group.

The strong economic performance of Beijing as illustrated above provides support to the expected stability and growth of office leasing of Founder International Building in Beijing under the Master Lease Agreement.

2. Overall PRC property market

a) Market performance

The real estate market in the PRC showed a growing trend in general. The rapid development of the Chinese economy has led to an increase in overall spending and demand for larger living space. The chart below sets out some property market indicators of the PRC between 2004 and 2011:

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Real estate investment (RMB billion)	1,316	1,591	1,942	2,529	3,120	3,624	4,826	6,180
GFA of commodity properties completed (million sq.m.)	425	534	558	606	665	727	787	926
GFA of commodity properties sold (million sq.m.)	382	555	619	774	660	948	1,048	1,094
GFA of residential properties sold (million sq.m.)	338	496	554	701	593	862	934	965
Average selling price of commodity properties (RMB per sq.m.)	2,778	3,168	3,367	3,864	3,800	4,681	5,032	5,357
Average selling price of residential properties (RMB per sq.m.)	2,608	2,937	3,119	3,645	3,576	4,459	4,725	4,993

Source: National Bureau of Statistics of China

In 2011, the property market in China saw a minor correction with price growth slowed down and falling transaction volume, thanks to the austerity measures, including restriction on home purchases, imposed by the PRC Government during the year. During China's Central Economic Work Conference, an event that indicate the direction of Mainland economic policies over the coming year, held in early December 2011, the central government announced that it would maintain its property-tightening policies to promote the return of home prices to reasonable levels and promote the healthy development of the property market. Although such correction resulted in a slowdown in the property market in the short term, it helped curbing speculative activities which should be beneficial to the market in the long run.

b) Competition

Competition in the PRC property market has been intensified over the past few years. Property developers compete against each others based on a number of factors including product quality, service quality, price, financial resources, brand recognition, ability to acquire land reserves and other factors. Our existing and potential competitors are mainly regional property developers, in particular those headquartered in Jiangsu and Hubei provinces in the PRC. With the strong focus in the property business, increasing brand recognition and emphasis on product and service quality, the Directors believe the Acquired Group will be able to maintain its competitiveness and strive to maintain growth in the property business.

c) Entry barriers, challenges and growth opportunities

Property developers depend heavily on the overall performance of the property market in the PRC, which may be affected by many factors including but not limited to the overall economic condition and policies implemented by the PRC Government. Real estate development is capital intensive in nature with development projects normally take months or even years to receive proceeds from pre-sales. Success of a property developer also depends on its ability to acquire land at relatively early stages in its long-term appreciation potential.

The existing Land Use Rights Certificates for PKU Resource – Li Cheng Project were obtained by the Acquired Group on 29 April 2010 while the existing Land Use Rights Certificates for Honglianhu Project were obtained by the Acquired Group on 9 December 2003 and 5 September 2008 and the Directors consider that they will be able to capture the long term appreciation potential.

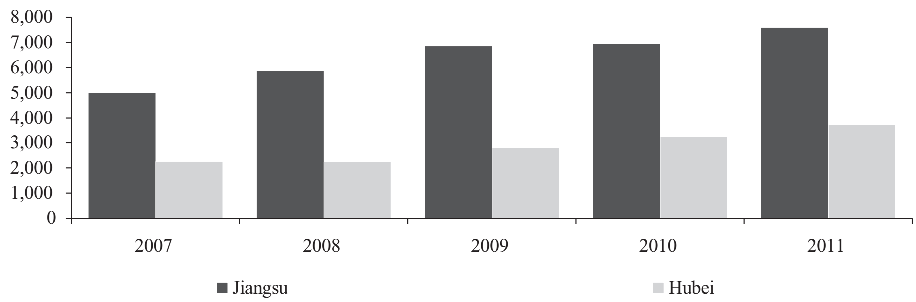
Despite the above mentioned entry barriers and challenges property developers may face, the Directors believe the PRC commercial and residential property markets would continue to be benefited from the blooming economic growth in the medium to long term. With the continuous growth in disposable income of PRC citizens and increasing international trade and business activities in the PRC, it is expected that demand for high quality residential buildings and office buildings will continue to grow, which in turn offers strong back up to the continuous growth of business of the Acquired Group.

3. Residential property markets of Jiangsu province and Hubei province

As there is no readily available public data for residential property markets of Kunshan city and Ezhou city where the PKU Resource – Li Cheng Project and Honglianhu Project are respectively located at, as an alternative, the information on residential property markets of Jiangsu province and Hubei province, being provincial data available, is presented below.

As a result of the rapid economic development as illustrated above, Jiangsu province and Hubei province demonstrated a steady trend in the growth of floor space of residential buildings completed from 2007 to 2011.

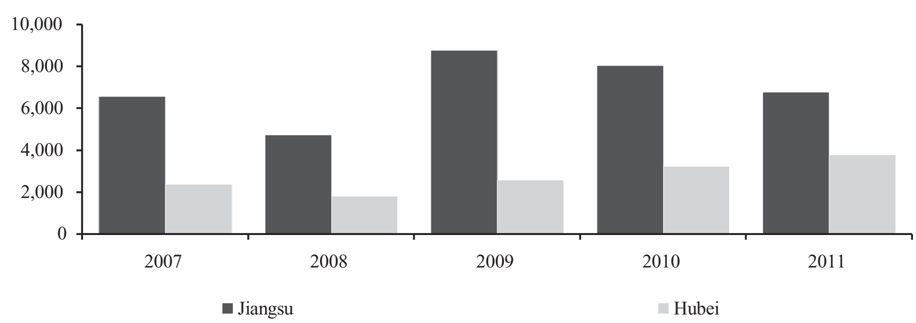
Floor Space of Residential Buildings Completed (in 10,000 square meters)



Source: National Bureau of Statistics of China

The floor space of residential buildings completed of Jiangsu province increased from approximately 50.11 million square metres in 2007 to approximately 75.99 million square metres in 2011 while the floor space of residential buildings completed of Hubei province increased from approximately 22.67 million square metres in 2007 to approximately 37.29 million square metres in 2011.

Floor Space of Commercial Residential Buildings Sold (in 10,000 square meters)



Source: National Bureau of Statistics of China

During the same period, the floor space of commercial residential buildings sold of Jiangsu province increased from approximately 65.80 million square metres in 2007 to approximately 67.90 million square metres in 2011. The floor space of commercial residential buildings sold in Jiangsu declined gradually from 2009 to 2011 was primarily attributable to lower demand for residential units as a result of, amongst other things, control of land supply by the local government, elimination of less competitive developers and other local policies to counteract speculative activities during the period. Nonetheless, the Directors are of the view that since Jiangsu province is ranked as one of the top Chinese provinces in terms of GDP per capita and Kunshan is currently regarded as one of the most economically successful county level administrations in China, the impact of austerity measures introduced at national and local government levels on Kunshan is relatively small and the Group is optimistic about the economic growth and development of the property industry in Kunshan and Jiangsu province. The floor space of commercial residential buildings sold of Hubei province increased from approximately 23.80 million square metres in 2007 to approximately 37.85 million square metres in 2011.

4. Office rental markets of Beijing and Wuhan

Beijing

According to the research report "DTZ Property Times Beijing Q2 2012" issued by DTZ Research on 20 July 2012, in the 2nd quarter of 2012, demand for A-grade office buildings in Beijing continued to exceed supply with vacancy rate reached approximately 2.45% (1.1% lower than the 1st quarter). In the 2nd quarter of 2012, total rentable gross floor area of A-grade office buildings in Beijing was approximately 6,656,969 square meters. The growth of monthly unit rental of A-grade office buildings in Beijing slowed down in the 2nd quarter of 2012 to approximately RMB288.55 per square meter, approximately 3.96% higher than the 1st quarter.

Due to limited supply and increasing unit rental in core business districts, tenants started to move to office buildings in nearby areas with more space and lower unit rental. In the 2nd quarter of 2012, vacancy rate of A-grade office buildings in non-core business districts was approximately 2.67%, which was approximately 5.71% lower than the 1st quarter. It is expected that this moving trend will continue in the 3rd quarter of 2012. Below please find the statistics on the A-grade office buildings in Zhongguancun where Founder International Building is situated at:

District	Total rentable area (square meters)	Vacancy rate (%)	Unit rental (RMB/square meter/ month)	Quarterly change in unit rental (%)
Zhongguancun	756,723	0.82	213.78	0.67

Source: DTZ Property Times Beijing Q2 2012

Wuhan

According to the research report "DTZ Property Times Wuhan Q2 2012" issued by DTZ Research on 20 July 2012, in the 2nd quarter of 2012, rental performance of A-grade office buildings in Wuhan remained satisfactory. In the 2nd quarter of 2012, total rentable gross floor area of A-grade office buildings in Wuhan was approximately 879,500 square meters. Due to the increase in monthly unit rental of certain office buildings, overall monthly unit rental of A-grade office buildings in Wuhan increased to approximately RMB90.5 per square meter, approximately 4.2% higher than the 1st quarter. Vacancy rate of A-grade office buildings in Wuhan decreased to approximately 18.2%, approximately 5% lower than the 1st quarter.

In respect of office rental market of Wuguang business district where International Building of Wuhan is situated at, due to limited supply of high quality office buildings, monthly unit rental growth in the 2nd quarter of 2012 was approximately 9.3%, the highest among the four major business districts in Wuhan.

District	Total rentable area (square meters)	Vacancy rate (%)	Unit rental (RMB/square meter/ month)	Quarterly change in unit rental (%)
Wuguang business district	196,500	3.2	82	9.3

Source: DTZ Property Times Wuhan Q2 2012

Due to the rapid growth in monthly unit rental and decrease in vacancy rate in the 1st half of 2012, it is expected that monthly unit rental will be relatively stable in the 3rd quarter of 2012 with slight decrease in vacancy rate.

The average monthly rental of International Building of Wuhan was approximately RMB21.0, RMB22.7, RMB22.9 and RMB23.7 per square meter for the three years ended 31 December 2011 and five months ended 31 May 2012 respectively. The current monthly rental of The International Building of Wuhan was lower than that in Wuguang business district as it is situated at the outskirt areas of the Wuguang business district and it was built in 1993 with its tenants mainly being small to medium-sized companies. Upon completion of the Acquisition, the Company will evaluate whether there is a need to renovate the International Building of Wuhan, to engage in more promotional activities with the aim to promote the image of International Building of Wuhan so as to attract higher quality tenants and for rental appreciation. The Directors expect this could upgrade the overall image of and maximize the value generated from the building through attracting sizable companies with higher quality and higher rental income.

Risk factors

The new business is dependent on the performance of the property market in the PRC

The business of the Acquired Group is heavily dependent on the performance of the property market in the PRC. The PRC property market, in particular in Hubei and Jiangsu provinces, is affected by many factors, including changes in the PRC's social, political, economic and legal environment, changes in the PRC government's fiscal and monetary policy, the lack of a mature and active secondary market for residential and commercial properties and the limited availability of mortgage loans to individuals in China. Demand for residential properties in the PRC has been growing rapidly in recent years, but such growth is often coupled with volatility in market conditions and fluctuations in property prices. If the property market slows down, the Group's results of operations and financial condition could be adversely affected.

Subsequent to the Acquisition, the Enlarged Group will have two lines of business, namely the business of distribution of information products in Hong Kong and the PRC, and the property business in the PRC. The Directors believe that the two lines of business can complement each other and that the potential adverse effects on the Group's results of operations and financial condition brought about by the volatility in the PRC property market can be mitigated by such business diversification resulting from the Acquisition. Besides, the Directors are of the view that the Acquired Group being principally engaged in different aspects of property business (i.e. property development and property investment) in the PRC will further reduce the risk faced by the Enlarged Group associated with fluctuations in the PRC property market in general.

The operations of the Acquired Group are subject to extensive governmental regulations, and the PRC government may introduce further measures to curtail growth in the property sector

The real estate industry in China is heavily regulated by the PRC government. The Acquired Group must comply with various PRC policies, laws and regulations, as well as the practices and procedures of various local authorities. The PRC government exerts considerable influence on the development of the PRC real estate industry by imposing industry policies and other economic measures to control the credit market, taxation and foreign investment. In particular, these measures include raising benchmark interest rates for commercial banks and individual property purchasers, placing additional limitations on the ability of commercial banks to make loans to property developers, imposing additional taxes and levies on property sales and restricting foreign investment in the PRC property sector. The details of laws and regulations relating to foreign investment in real estate business are in the paragraph headed "Relevant laws and regulations for the real estate business in the PRC" in this letter. Many of the real estate industry policies implemented by the PRC government are unprecedented and are expected to be refined and adjusted over time. Political, economic and social factors may also lead to further policy adjustments. This refining and adjustment process may have uncertain effects on the operations of the Acquired Group and the Acquired Group's future business development.

Along with general economic growth in China, investments in the property sector have increased significantly in the past few years. In response to concerns over the scale of the increase in property investments, and in light of increasing speculation in the property market, the PRC government has introduced policies and regulations to control the growth of the property sector. The various restrictive measures taken by the PRC government with an aim to control the growth of the property sector may limit the Acquired Group's access to capital and reduce market demand, and in adapting to these measures the Acquired Group's operating costs may also increase. If the Acquired Group fails to adapt its operations to new policies and regulations that may come into effect from time to time with respect to the PRC real estate industry, or if such policy or regulatory changes disrupt its business or cause it to incur additional costs, its business, results of operations and financial condition may be adversely affected.

Although the real estate sector in the PRC is highly regulated by the PRC government, the Directors consider that the possible negative impacts on the Group's business resulting from the compliance with government's policies and regulations can be cushioned by the business diversification of the Enlarged Group as a result of the Acquisition.

PRC economic, political and social conditions could affect the Acquired Group's business and prospects

The PRC economy differs from the economies of most of the developed countries in many aspects, including:

- the amount and degree of the PRC government involvement;
- growth rate and degree of development;
- uniformity in the implementation and enforcement of laws;
- content of and control over capital investment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. It cannot be predicted whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will have any adverse effect on the Acquired Group's business, financial condition or results of operations. In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on the Acquired Group's operations and business development.

The Acquired Group may be adversely affected by the performance of third-party contractors

The Acquired Group engage contractors to provide various services, including construction, piling and foundation, engineering works, interior design, mechanical and electrical installations and installation of common area facilities.

It cannot be guaranteed that the services rendered by contractors will be satisfactory or such services will match the level of quality that the Acquired Group requires. Moreover, contractors may experience financial or other difficulties that may affect their ability to carry out the work for which they were contracted, thus resulting in delays to the completion of the Acquired Group's projects or resulting in additional costs. Should any of these contractors fail to deliver properties in accordance with the requirements and schedules stated in the contracts, the Acquired Group's customers may terminate their pre-sale contracts and claim for compensation. If the Acquired Group is unable to recover from the contractors sufficient amounts that it must pay to its purchasers, its business, results of operations and financial condition may be adversely affected. In addition, any such failure on the part of the Acquired Group's contracts may also result in adverse publicity for it, which in turn may result in an adverse impact on its prospects and growth.

The Acquired Group exercises due caution when selecting its construction contractors through tender procedures. The Acquired Group principally requires candidates to have the State Housing Construction Contracting Qualification or Premium Qualification (國家房屋建築工程施工總承包一級資質或特級資質) and registered capital of more than RMB50 million. When considering its construction contractors, the Acquired Group also lays down the requirements that candidates must not have a negative track record for the past three years in the aspects of quality and safety, and that they must not be involved in any material economic or civil disputes for the past three years. The Acquired Group also engages qualified supervising companies to monitor the construction work carried out by third-party contractors.

The construction business and the property development business are subject to claims under statutorily mandated quality warranties

Under the Regulations on the Implementation of Housing Quality Warranty Card and User's Guide System for Commodity Housing (商品住宅實行住宅質量保證書和住宅使用說明書制度的規定), all property development companies in the PRC must provide certain quality warranties for the commodity housing they sell. The Acquired Group is required to provide these warranties to its customers. The Acquired Group signs the quality warranty cards with its customers at the time when the commodity houses are delivered to the customers. The Acquired Group is responsible for the repair work on any defects in the main structure of the houses or in the related facilities that are caused by non-human errors. In respect of defects identified in the main structure of the commodity houses, the quality warranties cover a reasonable term of use which is normally fifty years. For defects identified in the related facilities or components of the houses (e.g. pipes, windows), the quality warranties normally cover a period of one to five years, depending on the type of facilities involved. If a significant number of claims are brought against it under its warranties and if it is unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, or if the retention money retained by it is not sufficient to cover its payment obligations under the quality warranties, it could incur significant expenses to resolve such claims or face delays in correcting the related defects, which could in turn harm its reputation and have an adverse effect on its business, financial condition and results of operations.

In order to lessen the risk brought about by the potential claims made by the Acquired Group's customers under the quality warranties, the Acquired Group, as mentioned above, adopts procedures to carefully screen out substandard third-party contractors and engages supervising companies to routinely monitor the progress and quality of the work performed by the contractors.

The Enlarged Group may not be able to recruit or retain expertise to operate and manage the property business

Given the intense competition for experienced managerial talent and skilled personnel in the PRC property market and the limited pool of qualified candidates, the Enlarged Group may not be able to retain its current senior executives or key personnel. The Enlarged Group may also be unable to attract and recruit high-quality senior executives or key personnel in the future. The loss of its senior management or other key personnel and failure to find qualified replacements could disrupt and adversely affect the operations of the Enlarged Group. If the Enlarged Group cannot attract and retain qualified personnel for its property business, its performance and future growth may be adversely affected.

The Enlarged Group will continue to offer competitive remuneration packages and provide suitable training opportunities in order to retain and recruit qualified staff. The Directors will review the remuneration policies and training programmes of the Enlarged Group from time to time to ensure that employees are provided with sufficient incentives. The Directors are also of the opinion that, with its established reputation in the PRC, the Enlarged Group is able to provide a good development platform for its staff. Further, both the Honglianhu Project and the PKU Resource – Li Cheng Project are promising projects. The Directors therefore believe that, the Enlarged Group will be able to retain and recruit suitable personnel.

We may be unable to access adequate financial resources to finance projects in the future

The property business is capital intensive. The availability of adequate financial resources is therefore crucial to the ability of the Enlarged Group to finance its property projects. The Enlarged Group's ability to secure adequate and suitable financing for its projects depends on a number of factors that are beyond the control of the Enlarged Group, including general economic conditions, credit availability from financial institutions, cost of borrowing and monetary policies in the PRC. There can be no assurance that the Enlarged Group will be able to obtain sufficient funds on favorable or acceptable terms, or at all, to fund its current and future property projects.

The Enlarged Group plans to make use of its internal resources, bank borrowings and proceeds from the pre-sale and sale of properties to finance future projects. As disclosed in the other parts of this letter, it is expected that various projects of the Acquired Group will be able to self-finance themselves after 31 December 2014 without additional material capital commitment required. Further, PKU Resource has confirmed that, in case where the Enlarged Group is not able to secure the required financing from the financial institutions in the PRC, it will procure the necessary capital for the development of the PKU Resource – Li Cheng Project and the Honglianhu Project in the future of up to RMB680 million in the two years ending 31 December 2014. The Enlarged Group will also explore other means of financing, including development loans from banks, entrusted loans from trust companies and loans from Founder Finance.

Relevant laws and regulations for the real estate business in the PRC

Establishment of a real estate development enterprise

Pursuant to the Law of the PRC on Urban Real Estate Administration (中華人民共和國城市房地產管理法) (the "Urban Real Estate Law") and the Regulation on Administration of Development of Urban Real Estate (城市房地產開發經營管理條例) (the "Development Regulations"), a company engaging in development of real estate shall satisfy the following requirements: (1) the registered capital shall be no less than RMB1,000,000; and (2) the company shall have at least four professional real estate/construction technicians and two accountants, each of whom shall hold the relevant qualification certificate. A real estate development company must file for record with the relevant real estate development authority within 30 days of the receipt of its business license. Companies who engage in real estate development without a business license may be ordered to cease their business.

Under the PRC laws and regulations, the establishment of foreign invested enterprises must be approved by the authorities of commerce prior to its registration with the department of administration for industry and commerce. According to the Foreign Investment Industrial Guidance Catalogue (2011 Revision), the following real estate development businesses are classified as the restricted category: (i) the development of large scale of land lots which shall be operated only by Sino-foreign joint venture or Sino-foreign co-operative venture; (ii) the construction and operation of upscale hotels, premium office buildings and international conference centers; (iii) the secondary real estate market and housing agents or brokerages.

According to the Circular on Standardising the Admittance and Administration of Foreign Capital in the Real Estate Market (Jian Zhu Fang [2006] No.171)（建設部、商務部、國家發展和改革委員會、中國人民銀行、國家工商行政管理總局、國家外匯管理局關於規範房地產市場外資准入和管理的意見）, foreign institutions or individuals purchasing real estate in China not for their own use shall follow the principle of commercial existence and apply for establishment of foreign investment enterprises to carry on their business. Pursuant to the Notice Concerning Further Strengthening and Regulating the Examination, Approval and Supervision of Direct Foreign Investment in Real Estate (Shang Zi Han [2007] No. 50)（商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知）, local approval authorities must report to MOFCOM for record their approvals of establishment of foreign invested real estate enterprises.

Qualification of a real estate development enterprise

Under the Provisions on Administration of Qualifications of Real Estate Developers（房地產開發企業資質管理規定）, a real estate development enterprise may not engage in the development and operation of property without a qualification classification certificate for real estate development. Qualifications of real estate development enterprises are classified into four classes: class 1, class 2, class 3 and class 4. Different classes of qualification shall be examined and approved by the corresponding authorities. A newly established real estate developer could apply for a provisional qualification certificate if eligible. The provisional qualification certificate shall be effective for one year and can be renewed by the authorities for not more than two years. A developer of any qualification classification may only engage in the business of real estate development and operation within its approved business scope, and it may not engage in business which falls outside its approved scope. Companies engaging in real estate development without obtaining a qualification classification certificate or beyond the classification may be ordered to make corrections within a specified time limit and imposed a fine by relevant authorities; where no corrections are made after the expiration of the time limit, the business license may be revoked.

Development of real estate

Pursuant to the Regulations on the Granting of State-owned Construction Land Use Right through Public Tender, Auction and Listing-for-Sale（招標拍賣掛牌出讓國有建設用地使用權規定）, the use right of land for industrial, commercial, tourism, entertainment and commodity housing development shall be granted by way of public tender, auction or listing-for-sale. the grantee of state-owned construction land use rights shall fully pay up the premium for the land use right in accordance with the land use right granting contract before it apply for the State-owned Construction Land Use Right Certificate. According to the Urban Real Estate Law, those who have obtained the granted land use right must develop the land in accordance with the use and term as prescribed by the granting contract; where the development has not been started one year later than the prescribed date, an idle land fee less than 20 percent of the premium for the land use right may be collected; where the development has not been started two years later, the land use right may be taken back without any compensation, except that the delays are caused by force majeure, the activities of government or governmental departments, or the necessary preparatory work for starting the development. The Measures on the Disposal of Idle Land (閑置土地處置辦法) provides the specific measures to dispose idle lands. None of the land use rights owned by the Acquired Group has been identified as idle land. According to the Measures on the Disposal of Idle Land(閑置土地處置辦法), the land use rights for PKU Resource – Li Cheng Project owned by Kunshan Hi-Tech are not idle land. For Honglianhu Project, the construction work has not been started because the housing demolition and relocation on this land has not been completed. The current demolition work is now supported by the local land authority and the Administration Committee of Honglianhu Resort, and this parcel of land has not been identified as idle land either. The demolition work is expected to be completed in April 2013, and the development and construction is expected to be commenced in May 2013.

According to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法), after signing the granting contract for the land use right, a real estate developer shall apply for a Planning Permit for Construction Land (建設用地規劃許可證) from the urban and rural planning authority. If the construction is located in a planning zone of a city or county, the real estate developer shall apply for a Planning Permit for Construction Works (建設工程規劃許可證) from the city/county planning authority. Real estate developers who have violated the aforesaid rules may be ordered to cease construction or to make rectification with penalty, or to demolish the project within a time limit.

According to the Measures for the Administration of Construction Permits for Construction Projects (建築工程施工許可管理辦法), a real estate developer shall apply for a Commencement Permit for Construction Works (建築工程施工許可證) from the construction authority prior to the commencement of the construction, except that the investment amount of the construction project is less than RMB300,000 or the construction area is less than 300 square meters. Real estate developers starting construction without obtaining a Commencement Permit for Construction Works may be ordered to make rectification or to stop construction and be imposed penalty by the competent authority.

Pursuant to the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例), after the completion of construction, a real estate developer shall arrange for the acceptance examination of the quality of the construction, and file with the real estate development authority within 15 days after passing the acceptance examination. Real estate developers failing to arrange the acceptance examination or failing to pass the examination, the estate developer shall be ordered to make corrections and shall be imposed a fine by the competent authority. The documents to file shall also contain, among other things, the acceptance approval documents issued by the planning, environmental protection, fire control and other relevant authorities.

Acquired Group has been in compliance with all the aforementioned regulations in all the material aspects during the three years ended 31 December 2011 and the five months ended 31 May 2012. The company noticed that the completion date stipulated in the grant contract of land use right for PKU Resource – Li Cheng Project is 27 January 2012; however, since the delay of the delivery of the land by the governmental department, PKU Resource – Li Cheng Project has not been completed yet. Kunshan Hi-Tech has notified the land authority in respect of this matter, and the authority does not raise any objections.

Sale of commodity properties

The Regulatory Measures on the Sale of Commodity Housings (商品房銷售管理辦法) divided the sale of commodity housings into pre-completion sales and post-completion sales. For the pre-completion sales, the Administrative Measures Governing the Pre-sale of Urban Commodity Housings (城市商品房預售管理辦法) provides that a real estate developer intending to sell commodity properties before their completion shall obtain a Permit of Pre-Completion Sale of Commodity Housings. Real estate developers selling commodity properties without obtaining the aforesaid permit may be ordered to stop illegal acts, have illegal gains confiscated and be imposed a fine by the competent authority. The developer shall sign a contract on the pre-sale of the commodity property with the purchaser, and apply for registration of the contract with the real estate development authority.

Lease of real properties

According to the Urban Real Estate Law and the Regulations on Leases of Commodity Housings (商品房屋租賃管理辦法), the parties to a lease of a property shall file the written lease contract with the property administration authority. Parties to the lease contract failing to file the contract may be ordered to make rectification.

Listing Rules Implications

As one or more of the applicable percentage ratios, where appropriate, calculated with reference to Rule 14.07 of the Listing Rules, exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and is therefore subject to the announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, the Company is owned as to approximately 32.84% of the issued Shares by the Vendor. As the Vendor is a controlling shareholder of the Company, it is a connected person of the Company under the Listing Rules. Accordingly, the Acquisition and the issue of the Subscription Convertible Bonds and the transactions contemplated under the S&P and Subscription Agreement also constitute non-exempt connected transactions for the Company under Chapter 14A of the Listing Rules and are subject to approval by the Independent Shareholders at the SGM. The Vendor, its associates and those who are involved in or interested in the Acquisition and the Subscription will abstain from voting at the SGM in respect of the resolutions approving the Acquisition, the Subscription, the issue of Convertible Bonds and the allotment and issue of the Consideration Shares and the Conversion Shares upon conversion pursuant to the terms and conditions of the Convertible Bonds.

3. WHITEWASH WAIVER

As at the Latest Practicable Date, the Vendor owns approximately 32.84% shareholding in the Company. After the issuance of the Consideration Shares to the Vendor, the Vendor and parties acting in concert with it will be interested in a total of 891,171,976 Shares, representing approximately 54.54% of the enlarged issued share capital of the Company (assuming no further Shares will be allotted and issued prior to the issue of the Consideration Shares). The Vendor will then have an obligation to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by the Vendor and parties acting in concert with it pursuant to Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive.

As a result, an application has been made by the Vendor to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will also be subject to, amongst others, the approval by the Independent Shareholders taken by way of a poll at the SGM to waive the general offer obligation on the part of the Vendor and parties acting in concert with it which will be triggered as a result of the issue of the Consideration Shares. The Vendor, parties acting in concert with it or those who are interested in or involved in the Acquisition, the Whitewash Waiver and the transactions contemplated thereunder will abstain from voting in respect of the resolution approving the Acquisition, the Subscription, the Whitewash Waiver and the transactions contemplated thereunder at the SGM.

After the Consideration Shares are issued to the Vendor, the Vendor and parties acting in concert with it will hold more than 50% of the voting rights of the Company and thereafter the Vendor and parties acting in concert with it may increase its holding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

The Vendor has confirmed that (a) it and/or parties acting in concert with it have not acquired voting rights attaching to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company; (b) there have been no disqualifying transactions as stipulated under paragraph 3 of Schedule VI to the Takeovers Code; and (c) there have been no dealings in the Shares by them, within the six months period prior to the date of the Announcement and up to and including the Latest Practicable Date.

As at the Latest Practicable Date, save for the Convertible Bonds and the outstanding 42,056,200 share options granted under the Share Option Scheme, the Company has no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares or affect the Shares of the Company.

Save as otherwise disclosed in this circular, as at the Latest Practicable Date:

(i) there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Acquisition, the issue of the Consideration Shares and the Convertible Bonds and the Whitewash Waiver;

(ii) the Vendor does not have any agreement or arrangement to which any of them is a party which relates to the circumstances in which any of them may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition, the Subscription, the issue of the Consideration Shares and the Convertible Bonds and the Whitewash Waiver;

(iii) there is no outstanding derivative in respect of relevant securities (as defined in the Takeovers Code) in the Company which has been entered into by any of the Vendor or parties acting in concert with it;

(iv) neither the Vendor nor any parties acting in concert with it holds any convertible securities, warrants, derivatives or options of the Company;

(v) neither the Vendor nor any parties acting in concert with it has received an irrevocable commitment or arrangements to vote in favour of or against the resolutions in respect of the Whitewash Waiver; and

(vi) there are no relevant securities (as defined in the Takeovers Code) in the Company which the Vendor or any parties acting in concert with it has borrowed or lent.

4. CONTINUING CONNECTED TRANSACTIONS: LOAN AGREEMENT AND ENTRUSTED LOAN AGREEMENT

On 6 May 2012, Kunshan Hi-Tech entered into the Loan Agreement with PKU Resource pursuant to which PKU Resource would entrust Founder Finance to provide a one-year term loan in the sum of RMB250,000,000 to Kunshan Hi-Tech. On 5 July 2012, Founder Finance entered into the Entrusted Loan Agreement with Kunshan Hi-Tech to give effect to the aforesaid.

Principal terms of the Loan Agreement and Entrusted Loan Agreement

Loan Agreement

Lender:	PKU Resource, which is principally engaged in property development, real estate activities, trading and education investment
Borrower:	Kunshan Hi-Tech
Loan Amount:	RMB250,000,000

Term:	one year from the date when the subject loan is drawn
Interest:	at the interest rate at 12.5% per annum and to be paid semi-annually
Security provided:	charge over the Land Use Rights to the entity designated by PKU Resource
Repayment:	The whole loan shall be repaid on at the end of the term

Entrusted Loan Agreement

The principal terms of the Entrusted Loan Agreement are substantially the same as the Loan Agreement except that the Lender is Founder Finance instead of PKU Resource.

Reasons for and benefits of the Entrusted Loan

In view of recent stringent PRC banking policies in releasing loans to property companies, it is very difficult for Kunshan Hi-Tech to apply for new loans from banks. As Kunshan Hi-Tech needs capital to develop the PKU Resource – Li Cheng Project in Kunshan, the Entrusted Loan can effectively reduce the working capital pressure on Kunshan Hi-Tech at commercially reasonable rate, which is determined based on the loan rates provided to other group companies, which is in turn beneficial to the long term development of Kunshan Hi-Tech. As it is a general practice for loan terms in the PRC to be not more than one year, the one-year term of the Entrusted Loan is in line with market practice. Since the Entrusted Loan is provided by PKU Resource, being the associate of the ultimate controlling shareholder of the Company, it is more likely that the Entrusted Loan will be extended than loans provided by independent third parties. However, as at the Latest Practicable Date, no agreement has been reached between the Group and PKU Resource to extend the Entrusted Loan. Should there be any extension of the Entrusted Loan subsequently, the Company will take steps to comply with the requirements under the Listing Rules.

The terms of the Loan Agreement and the Entrusted Loan Agreement were negotiated on an arm's length basis between all parties thereto and were determined on normal commercial terms. Taking into account the difficulties faced by the PRC property companies to obtain financing as a result of recent tightening of PRC banking policies in releasing loans to property companies, the Directors (including the independent non-executive Directors) are of the view that the Loan Agreement and the Entrusted Loan Agreement are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole. As the passing by the Independent Shareholders of all necessary resolutions at the SGM approving the Loan Agreement and Entrusted Loan Agreement is one of the conditions precedent of the Acquisition which cannot be waived, in the event that the Loan Agreement and the

Entrusted Loan Agreement are not approved by the Independent Shareholders, the Acquisition will be lapsed and the Loan Agreement and the Entrusted Loan Agreement will no longer constitute continuing connected transactions of the Company.

Listing Rules Implications

Upon Completion, Kunshan Hi-Tech will become an indirect non wholly-owned subsidiary of the Company. Further, PKU Resource is a fellow subsidiary of Peking Founder, whereas Founder Finance is a subsidiary of Peking Founder. As Peking Founder is the parent company of the Vendor, the controlling Shareholder of the Company, both PKU Resource and Founder Finance are therefore connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, upon Completion, the Loan Agreement and the Entrusted Loan Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under the Loan Agreement and the Entrusted Loan Agreement exceeds 5% and the consideration for the above transactions exceed HK$10,000,000, the Loan Agreement and the Entrusted Loan Agreement will constitute non-exempt continuing connected transactions for the Company upon Completion and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. PKU Resource, Founder Finance, their respective associates and those who are involved in or interested in the Loan Agreement and the Entrusted Loan Agreement will abstain from voting at the SGM in respect of the resolutions approving the Loan Agreement and the Entrusted Loan Agreement. Accordingly, the Vendor, together with its associates, which held 363,265,000 Shares as at the Latest Practicable Date are required to abstain form voting at the SGM.

5. CONTINUING CONNECTED TRANSACTIONS: MASTER LEASE AGREEMENT

On 28 August 2012, the Company entered into the Master Lease Agreement with Peking Founder, pursuant to which the Company agrees to procure one of its subsidiaries to lease certain commercial premises at Founder International Building to Peking Founder Group subject to the approval by the Independent Shareholders. Peking Founder shall arrange the members of Peking Founder Group to enter into separate lease agreements with the Group. The commencement date of the individual leases shall be specified in each individual lease agreement and the end date of all the individual leases shall not be later than 31 December 2014.

Principal terms of the Master Lease Agreement

The principal terms of the Master Lease Agreement are set out below:

Lessee	:	Peking Founder
Lessor	:	the Company

Conditions precedent	:	(i) the Company and the owner of the Founder International Building signs an agreement pursuant to which the Group is granted the right to manage Founder International Building (ii) the Master Lease Agreement is approved by the Independent Shareholders
Property leased	:	certain commercial premises on floors G3 to 17 in the Founder International Building
Leased area	:	approximately 22,000 square meters, representing approximately 50.4% of the total rentable gross floor area of approximately 43,635 square meters of Founder International Building. The remaining approximately 21,635 square meters, representing approximately 49.6% of the total rentable gross floor area of Founder International Building is to be leased to independent third parties. For the five months ended 31 May 2012, the occupancy rate for Founder International Building was approximately 93.6%.
Lease term	:	from the date specified in the individual lease agreement to the end date not later than 31 December 2014
Rental	:	determined with reference to the prevailing market rate at a discount given Peking Founder Group is the single largest lessee of Founder International Building. The level of discount is made with reference to the current discount offered to members of Peking Founder Group by 北京新奧特集團有限公司 (Beijing Xinaote Group Company Limited) ("Beijing Xinaote"). Taking into account that the Master Lease Agreement accounts for over half of the Founder International Building, the lease terms are generally longer than 2 years and the existing landlord is offering similar discount, it is considered as normal commercial terms to provide discount to such major lessees which provides stable and predictable income to the lessor in the long run

On 28 August 2012, the Company signed a memorandum of understanding with Beijing Xinaote, the owner of the Founder International Building. To the best knowledge of the Directors, except that PKU Resource has 18% equity interest in Beijing Xinaote, each of Beijing Xinaote and its ultimate beneficial owners is a third party independent of the Company and its connected persons. Under the said

memorandum of understanding, after the transactions contemplated under the Master Lease Agreement have been approved by the Independent Shareholders, Beijing Xinaote and a subsidiary designated by the Company shall enter into a formal agreement pursuant to which the Group shall pay to Beijing Xinaote the sums of RMB22 million (annualized amount, the actual amount payable for the year ending 31 December 2012 will be adjusted in pro-rata basis based on the final effective date of the agreement), RMB22.5 million and RMB23 million (subject to any possible adjustment as may be agreed by the parties in case there is change in market condition) for the years ending 31 December 2012, 2013 and 2014 respectively in consideration that the Group will be granted the right to manage Founder International Building and shall receive all profits (including but not limited to the rental income received from the tenants) derived from the Founder International Building. The amounts payable to Beijing Xinaote under the aforesaid memorandum of understanding was determined under arm's length negotiations between the Company and Beijing Xinaote after considering, among others, the expected annual rental income to be derived from the Founder International Building, the Group's relationship with Peking Founder being the largest lessee of the Founder International Building, and the expected rise in rental rate in the future. In the event that the Master Lease Agreement is voted down or is not proceeded with due to other reasons, the Company will not sign the formal agreement with Beijing Xinaote.

The Master Lease Agreement is not conditional upon the Completion, whereas the Completion is not conditional upon the approval of the Master Lease Agreement by the Independent Shareholders.

Annual caps

The annual caps for all the transactions contemplated under the Master Lease Agreement for each of the three years ending 31 December 2014 is RMB20 million (equivalent to approximately HK$24.4 million) (annualized amount, the actual annual cap for the year ending 31 December 2012 will be adjusted in pro-rata basis based on the final effective date of the Master Lease Agreement), RMB27 million (equivalent to approximately HK$33.0 million) and RMB34 million (equivalent to approximately HK$41.5 million) respectively which are determined with reference to the historical and current market unit rental, historical occupancy rate, tenure of existing tenancy agreements and the expected increase in unit rental and occupancy rate. The Directors (including the independent non-executive Directors) consider such annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reasons for and benefits of the Master Lease Agreement

The Directors are of the view that the transactions contemplated under the Master Lease Agreement enable the Group to earn stable rental income by leasing certain commercial premises to members of Peking Founder Group. Besides, Founder International Building is located in the Zhongguancun area in Haidian District of Beijing which is well known as a technology district. Therefore, the target tenants of Founder International Building are mainly technology companies. Taking into account that "Founder" is a renowned technology related brand in the PRC, the Directors are of the view that the leasing of certain commercial premises of Founder International Building to members of Peking Founder Group (a majority of them are technology related companies) can effectively enhance the goodwill of Founder International Building and increase the overall occupancy rate by attracting other high quality technology companies. The occupancy rate for Founder International Building was approximately 93.6% for the five months ended 31 May 2012. The Company will continue to engage those tenants so that a stable rental income will be achieved after the Acquisition. At the same time, the Company will evaluate whether there is a need to renovate the Founder International Building, to engage in more promotional activities with the aim to promote the image of Founder International Building so as to attract higher quality tenants and for rental appreciation.

The Directors (including the independent non-executive Directors) are of the view that transactions under the Master Lease Agreement are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Listing Rules Implications

As at the Latest Practicable Date, the Company is owned as to approximately 32.84% of the issued Shares by the Vendor, which is a subsidiary of Peking Founder. Therefore, Peking Founder is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Master Lease Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under the Master Lease Agreement exceeds 5% and the consideration for the above transactions is expected to exceed HK$10,000,000, the transactions contemplated under the Master Lease Agreement constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Peking Founder, its associates and those who are involved in or interested in the transactions contemplated under the Master Lease Agreement will abstain from voting at the SGM in respect of the resolutions approving the Master Lease Agreement.

6. SGM

A notice convening the SGM to be held at 10:00 a.m. on Wednesday, 5 December 2012 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages SGM-1 to SGM-3 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolutions in relation to the Acquisition, the Subscription, the issue of the Convertible Bonds and the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement.

The ordinary resolutions to be proposed at the SGM will be determined by way of poll. Any Shareholder who or whose associates which has material interest in the transactions and those who are involved in or interested in the relevant resolutions to be approved at the SGM will abstain from voting on the relevant resolutions. Accordingly, the Vendor, together with its associates, which held 363,265,000 Shares as at the Latest Practicable Date are required to abstain from voting with respect to the resolution for approving the Acquisition, the Subscription, the issue of the Convertible Bonds and the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same as soon as possible to the principal place of business of the Company at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not less than 48 hours before the time scheduled for the holding of the SGM or any adjournments thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournments thereof should you so desire.

7. RECOMMENDATION

The Independent Board Committee has been appointed to advise the Independent Shareholders in connection with the Acquisition, the Subscription, the issue of the Convertible Bonds and the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement.

Anglo Chinese has been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition, the Subscription, the issue of the Convertible Bonds and the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement.

The Independent Board Committee, having taken into account the advice of Anglo Chinese, is of the view that the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement as set out in the notice of SGM enclosed to this circular.

Except for (i) Mr Zhang Zhao Dong is the director of Peking Founder; and (ii) being Directors and their respective interest in shares and share option in the Company and its associated corporation as disclosed in Appendix VI to this circular, the Directors do not have material interest in the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement.

As Mr Zhang Zhao Dong is the director of Peking Founder, he has abstained from voting on the board resolutions approving the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement.

8. ADDITIONAL INFORMATION

Your attention is also drawn to the information as set out in the appendices to this circular and the notice of the SGM as set out on pages SGM-1 to SGM-3, which form part of this circular.

As Completion is subject to fulfilment of a number of conditions precedent under the S&P and Subscription Agreement, the Acquisition and the Subscription may or may not proceed. Shareholders and potential investors are urged to exercise extreme caution when dealing in the Shares.

Yours faithfully,
For and on behalf of the Board
EC-Founders (Holdings) Company Limited
Zhang Zhao Dong
Chairman

EC-FOUNDER (HOLDINGS) COMPANY LIMITED
方正數碼(控股)有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 00618)

Date 16 November 2012

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS: ACQUISITION OF TIANRANJU AND TIANHE AND ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE BONDS
(2) WHITEWASH WAIVER
(3) CONTINUING CONNECTED TRANSACTIONS: LOAN AGREEMENT AND ENTRUSTED LOAN AGREEMENT
(4) CONTINUING CONNECTED TRANSACTIONS: MASTER LEASE AGREEMENT

We have been appointed as members of the Independent Board Committee to advise you in respect of the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement, details of which are set out in the letter from the Board in the circular (the "Circular") of the Company dated 16 November 2012, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We wish to draw your attention to the letter of advice from Anglo Chinese as set out on pages 68 to 119 of the Circular, which contains its advice and recommendation to us as to whether or not the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, as well as the principal factors and reasons for its advice and recommendation.

Having considered, amongst other matters, the factors and reasons considered by, and the opinion of, Anglo Chinese as stated in its aforementioned letter of advice, we are of the opinion that the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement are fair and reasonable so far as the Independent Shareholders are concerned and

* *For identification purpose only*

in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement.

Yours faithfully,
The Independent Board Committee of
EC-Founder (Holdings) Company Limited

Li Fat Chung	**Wong Lam Kit Yee**	**Cao Qian**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of the letter of advice from Anglo Chinese to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.
www.anglochinesegroup.com
英高財務顧問有限公司

16th November, 2012

To the Independent Board Committee
and the Independent Shareholders

Dear Sirs,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTIONS: ACQUISITION OF TIANRANJU AND TIANHE AND ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE BONDS
(2) WHITEWASH WAIVER
(3) CONTINUING CONNECTED TRANSACTIONS: LOAN AGREEMENT AND ENTRUSTED LOAN AGREEMENT
(4) CONTINUING CONNECTED TRANSACTIONS: MASTER LEASE AGREEMENT

INTRODUCTION

We refer to the announcement dated 6th September, 2012 and the circular dated 16th November, 2012 (the "Circular") issued by the Company in relation to the Acquisition, the Subscription, the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares upon conversion pursuant to the terms and conditions of the Convertible Bonds, the Whitewash Waiver, the Loan Agreement, the Entrusted Loan Agreement and the Master Lease Agreement (the "Proposed Transactions"). Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Transactions.

THE PROPOSED TRANSACTIONS

The Acquisition

On 23rd August, 2012, the Company and the Vendor entered into the S&P and Subscription Agreement, pursuant to which the Company has conditionally agreed to (i) purchase the Sale Shares from the Vendor for a total consideration of HK$537 million which will be satisfied by the issue of the Consideration Shares as to HK$227 million and the

Consideration Convertible Bonds as to HK$310 million; and (ii) issue the Subscription Convertible Bonds to the Vendor at the consideration of HK$62 million. Both the Consideration Convertible Bonds and the Subscription Convertible Bonds are convertible into Shares at the conversion price of HK$0.43 per Conversion Share (the "Conversion Price"). Both the Consideration Shares and the Conversion Shares shall be allotted and issued pursuant to the specific mandate to be sought at the SGM, and shall rank pari passu with the Shares in issue.

The Consideration Shares represent approximately 47.73% of the issued share capital of the Company as at the Latest Practicable Date and approximately 32.31% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming no further Shares will be allotted and issued prior to the issue of the Consideration Shares). Upon conversion in full of the Convertible Bonds, an aggregate of 865,116,278 Conversion Shares will be issued, representing approximately 78.22% of the issued share capital of the Company as at the Latest Practicable Date and approximately 34.62% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares (assuming no further Shares will be allotted and issued prior to such conversion except for the Consideration Shares). The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares. As one or more of the applicable percentage ratios, where appropriate, calculated with reference to Rule 14.07 of the Listing Rules, exceed 100%, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and is therefore subject to the announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Whitewash Waiver

As at the Latest Practicable Date, the Vendor owns approximately 32.84% shareholding in the Company. After the issue of the Consideration Shares to the Vendor, the Vendor and parties acting in concert with it will be interested in a total of 891,171,976 Shares, representing approximately 54.54% of the enlarged issued share capital of the Company (assuming no further Shares will be allotted and issued prior to the issue of the Consideration Shares). The Vendor will then have an obligation to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by the Vendor and parties acting in concert with it pursuant to Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive.

An application has been made to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will also be subject to, amongst others, the approval by the Independent Shareholders taken by way of a poll at the SGM to waive the general offer obligation on the part of the Vendor and parties acting in concert with it which will be triggered as a result of the issue of the Consideration Shares.

Loan Agreement and Entrusted Loan Agreement

On 6th May, 2012, Kunshan Hi-Tech entered into the Loan Agreement with PKU Resource pursuant to which PKU Resource would entrust Founder Finance to provide a one-year term loan in the sum of RMB250,000,000 to Kunshan Hi-Tech. On 5th July, 2012, Founder Finance entered into the Entrusted Loan Agreement with Kunshan Hi-Tech to give effect to the aforesaid.

Upon Completion, Kunshan Hi-Tech will become an indirect non wholly-owned subsidiary of the Company. Further, PKU Resource is a fellow subsidiary of Peking Founder, whereas Founder Finance is a subsidiary of Peking Founder. As Peking Founder is the parent company of the Vendor, the controlling Shareholder of the Company, both PKU Resource and Founder Finance are therefore connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, upon Completion, the Loan Agreement and the Entrusted Loan Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

Master Lease Agreement

On 28th August, 2012, the Company entered into the Master Lease Agreement with Peking Founder, pursuant to which the Company agrees to procure one of its subsidiaries to lease certain commercial premises at Founder International Building to Peking Founder Group subject to the approval by the Independent Shareholders. Peking Founder shall arrange the members of Peking Founder Group to lease such premises and enter into separate lease agreements with the Group. The commencement date of the individual leases shall be specified in each individual lease agreement and the end date of all the individual leases shall not be later than 31st December, 2014.

Parties to abstain from voting

The Vendor, its associates and those who are involved in or interested in the Acquisition and the Subscription will abstain from voting at the SGM in respect of the resolutions approving the Acquisition, the Subscription, the issue of the Convertible Bonds and the allotment and issue of the Consideration Shares and the Conversion Shares upon conversion pursuant to the terms and conditions of the Convertible Bonds.

The Vendor and parties acting in concert with it and those who are involved in or interested in the Acquisition, the Subscription, the Whitewash Waiver and the transactions contemplated thereunder will abstain from voting in respect of the resolution approving the Acquisition, the Whitewash Waiver and the transactions contemplated thereunder at the SGM.

PKU Resource, Founder Finance, their respective associates and those who are involved in or interested in the Loan Agreement and the Entrusted Loan Agreement will abstain from voting at the SGM in respect of the resolutions approving the Loan Agreement and the Entrusted Loan Agreement.

Peking Founder, its associates and those who are involved in or interested in the transactions contemplated under the Master Lease Agreement will abstain from voting at the SGM in respect of the resolutions approving the Master Lease Agreement.

Independent board committee

An independent board committee (comprising all three independent non-executive Directors) has been established to advise the Independent Shareholders in connection with the Proposed Transactions.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information, statements, facts, opinions and representations supplied to us by the Company, including those contained or referred to in the Circular and the related announcements. We have reviewed, amongst other things, the published information on the Company including the annual and interim reports and accounts for the three years ended 31st December, 2011 and for the six months ended 30th June, 2012. We have also discussed with the management of the Company the business strategy for the Group, its performance and prospects, the background to and reasons for the Proposed Transactions.

We refer to the responsibility statement made by the Directors which confirms that the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and that, having made all reasonable enquiries, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have relied on the accuracy of the information, statements, facts, representations and opinions expressed by the Company and the Directors contained in and as referred to in the Circular. We have assumed that the information, statements, facts, representations and opinions were true at the time they were made and continue to be true, accurate and complete at the Latest Practicable Date.

We consider that we have reviewed sufficient information to reach the conclusions set out in this letter and have no reason to believe any information provided to us by the Company, its advisers and, or the Directors, is untrue, inaccurate or incomplete or that any material information has been omitted or withheld from the information supplied or the opinions expressed in the Circular. In line with normal practice we have not, however, conducted any independent investigation into the business and affairs or the prospects of the Group and the Acquired Group, the Vendor or any of their respective subsidiaries or associates nor have we considered any taxation implication on the Group or the Shareholders as a result of the Proposed Transactions. As the independent financial adviser we have not been involved in the negotiations relating to the terms of the Proposed Transactions. This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely for their consideration of the Proposed Transactions and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part nor be used for any other purposes, without our prior consent. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Apart from normal professional fees for our services to the Company in connection with this appointment, no arrangement exists whereby we will receive any benefits from the Group or any of its associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Transactions, we have taken into account the following principal factors and reasons:

Background information on the Group

The Company is principally engaged in distribution of information products. The distribution business of the Company is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, Apple, CommScope, Barco, Brocade, Hitachi and Iomega.

Financial position

The following table sets out the consolidated financial position of the Group as at 31st December, 2009, 2010 and 2011 as extracted from the Company's annual reports of 2009, 2010 and 2011 respectively and as at 30th June, 2012 as extracted from the Company's 2012 interim report:

Consolidated Statement of Financial Position

	30th June,	**31st December,**		
	2012	**2011**	**2010**	**2009**
	(Unaudited)	*(Audited)*	*(Audited)*	*(Audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	1,283,718	1,921,680	2,130,027	1,450,716
Total liabilities	983,191	1,582,469	1,781,905	1,130,186
Net assets	300,527	339,211	348,122	320,530

As at 31st December, 2010, the Group recorded total assets of approximately HK$2,130.0 million (31st December, 2009: HK$1,450.7 million) which were financed by liabilities of approximately HK$1,781.9 million (31st December, 2009: HK$1,130.2 million) and equity of approximately HK$348.1 million (31st December, 2009: HK$320.5 million). The Group had total cash and bank balances of approximately HK$689.9 million as at 31st December, 2010 (31st December, 2009: HK$597.1 million).

As at 31st December, 2011, the Group recorded total assets of approximately HK$1,921.7 million (31st December, 2010: HK$2,130.0 million) which were financed by liabilities of approximately HK$1,582.5 million (31st December, 2010: HK$1,781.9 million) and equity of approximately HK$339.2 million (31st December, 2010: HK$348.1 million).

The decrease in net assets by approximately 2.6% from HK$348.1 million as at 31st December, 2010 to approximately HK$339.2 million as at 31st December, 2011 was mainly attributable to the loss for the year of approximately HK$8.4 million as explained below.

As at 30th June, 2012, the Group's net assets recorded a further decrease from approximately HK$339.2 million to HK$300.5 million. The Group's deteriorating financial position as at 31st December, 2010 and 2011 and 30th June, 2012 was mainly due to the decline in the Group's operating results amid keen competition in the distribution market.

Financial results

Set out below is a summary of financial results of the Group for the three years ended 31st December, 2011 as extracted from the Company's 2009, 2010 and 2011 annual reports respectively and for the six months ended 30th June, 2012 as extracted from the Company's 2012 interim report.

Consolidated Income Statement

	For the six months ended 30th June,		**For the year ended 31st December,**		
	2012	**2011**	**2011**	**2010**	**2009**
	(Unaudited)	*(Unaudited)*	*(Audited)*	*(Audited)*	*(Audited)*
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	1,274,779	2,522,773	5,400,140	4,649,269	3,812,755
Gross profit	66,688	134,803	263,848	202,168	177,139
Gross profit margin	5.23%	5.34%	4.89%	4.35%	4.65%
Profit/(loss) for the year attributable to owners of the parent	(34,627)	(1,827)	(8,411)	15,763	33,325

The Group's revenue increased from approximately HK$3,812.8 million for the year ended 31st December, 2009 to approximately HK$4,649.3 million for the year ended 31st December, 2010 representing an increase of approximately 21.9%. The revenue growth was coupled with a shrinking gross profit margin from 4.65% for the year ended 31st December, 2009 to 4.35% for the year ended 31st December, 2010 while the gross profit during the same period increased by approximately 14.1% from HK$177.1 million to HK$202.2 million. However, as a result of rising selling and distribution costs, and administrative expenses, the profit attributable to owners of the parent of the Group decreased by approximately 52.9% from HK$33.3 million for the year ended 31st December, 2009 to HK$15.8 million for the year ended 31st December, 2010.

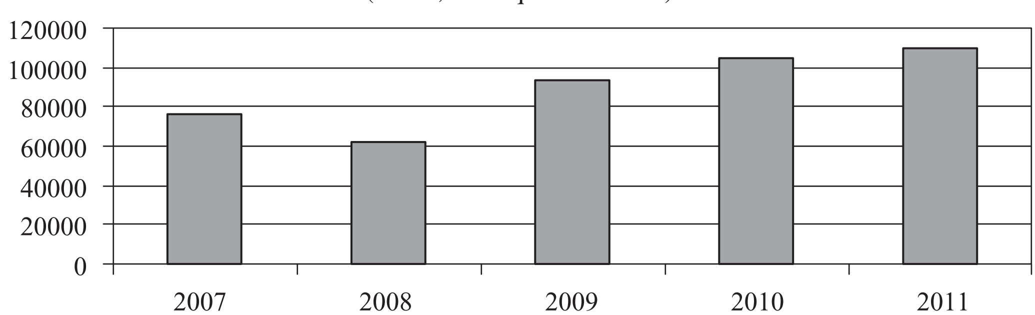
The Group's revenue rose approximately 16.2% from approximately HK$4,649.3 million during the year ended 31st December, 2010 to approximately HK$5,400.1 million during the year ended 31st December, 2011 and the gross profit increased by approximately 30.5% from HK$202.2 million to approximately HK$263.8 million. Despite an improvement in gross profit margin, the Group registered a loss attributable to owners of the parent of approximately HK$8.4 million for the year ended 31st December, 2011 compared to a profit attributable to owners of the parent of approximately HK$15.8 million for the year ended 31st December, 2010, which was attributable to (i) increases in selling and distribution costs and administrative expenses; (ii) an increase in finance costs; (iii) an increase in share of losses of associates due to intense competition in the distribution of mobile phones and data products in Hong Kong; and (iv) an increase in income tax expense for the distribution of information products.

For the six months ended 30th June, 2012, the Group's revenue decreased by approximately 49.5% from approximately HK$2,522.8 million for the six months ended 30th June, 2011 to HK$1,274.8 million for the six months ended 30th June, 2012, which was mainly attributable to the Company's strategy to streamline various product lines to concentrate the effort on product lines with better trading terms and to cope with the intense competition in the distribution market. Although this strategy managed to maintain the Group's gross profit margin at a level of approximately 5%, due to the increases in selling and distribution costs, and administrative expenses, the Group continued to make a loss attributable to owners of the parent of approximately HK$34.6 million for the six months ended 30th June, 2012 compared to a loss attributable to owners of the parent of approximately HK$1.8 million for the same period in 2011.

The PRC property industry

Despite changes in the marco-economic environment in the PRC following the introduction of austerity measures by the Central government in recent years, from 2008 to 2011, the PRC property market had experienced notable growth as shown in the increase in floor space of commercial buildings（商品房）sold in the PRC in the chart below, which was primarily due to strong growth in investment in the property markets in the PRC, thus further adding inflationary pressure on the PRC economy.

Floor space of commercial buildings（商品房）sold in the PRC
(in 10,000 square meters)

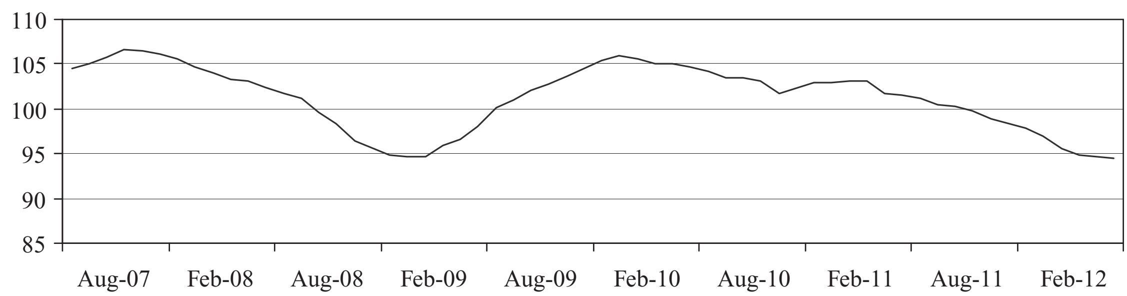


Source: National Bureau of Statistics of China

(Note: According to the monthly release entitled "National Real Estate Development and Sales" published by National Bureau of Statistics of China, commercial buildings（商品房）include primarily, amongst others, commercial residential buildings（商品住宅）, office buildings（辦公樓）and other buildings for business operation（商業營業用房）)

The austerity measures announced by the Central government and the monetary policies announced by the Peoples' Bank of China ("PBoC") have the effect of cooling down the PRC property market as evidenced in (i) the declining trend of the PRC real estate climate index since late 2009 in the chart below and based on publicly available information, (ii) in relation to property prices in Shanghai and Wuhan which are in the vicinity of the locations of the properties owned by the Acquired Group, the fall in sales price indices of residential buildings in Shanghai and Wuhan since the last quarter of 2011 as shown in the chart below.

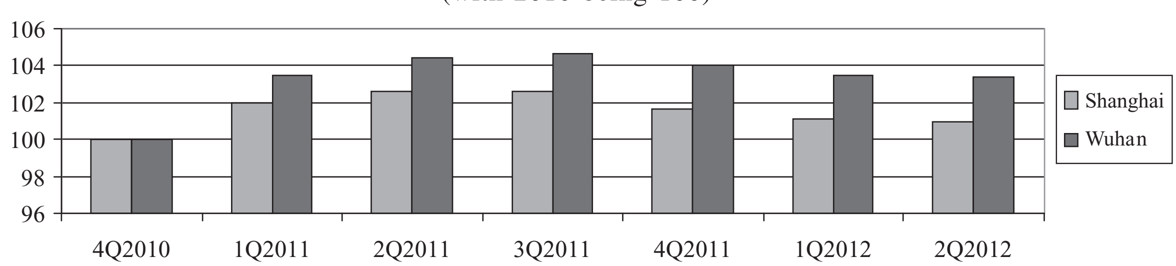
PRC real estate climate index



Source: National Bureau of Statistics of China

(*Note:* The PRC real Estate Climate Index is a comprehensive index indicating the trends and movements in the PRC real estate market)

Sales price indices of residential buildings
(with 2010 being 100)



Source: National Bureau of Statistics of China

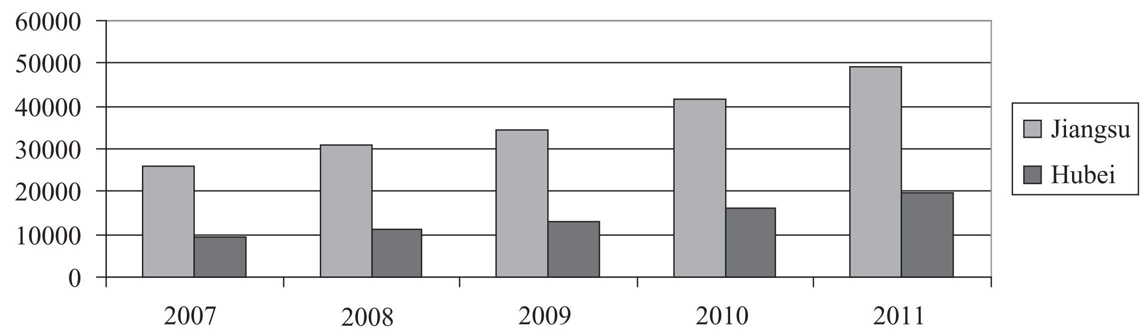
At the same time, the Central government has introduced home purchase restrictions to deter investors from entering the market and control inflating housing prices and other measures to improve affordability for first time home buyers. The PBoC has urged major banks in the PRC to offer more preferential lending rates and increase the availability of mortgages for first time buyers. As such, while any favourable effects of the Central government's austerity measures and recent correction of the property market on PRC developers are yet to be seen, based on our discussions with the management of the Company and the Directors' views set out in the paragraphs headed "Reasons for the Acquisition and the Subscription" in the Letter from the Board in the Circular, we believe that the future outlook of the PRC property industry in the medium to long term remains positive.

Performance of property markets in Jiangsu and Hubei in the last 5 years

As there are no publicly available official data on the demand for residential properties in Ezhou and Kunshan, the locations of the property projects of the Acquired Group, the data for Jiangsu and Hubei provinces, being the provincial data available, were used instead.

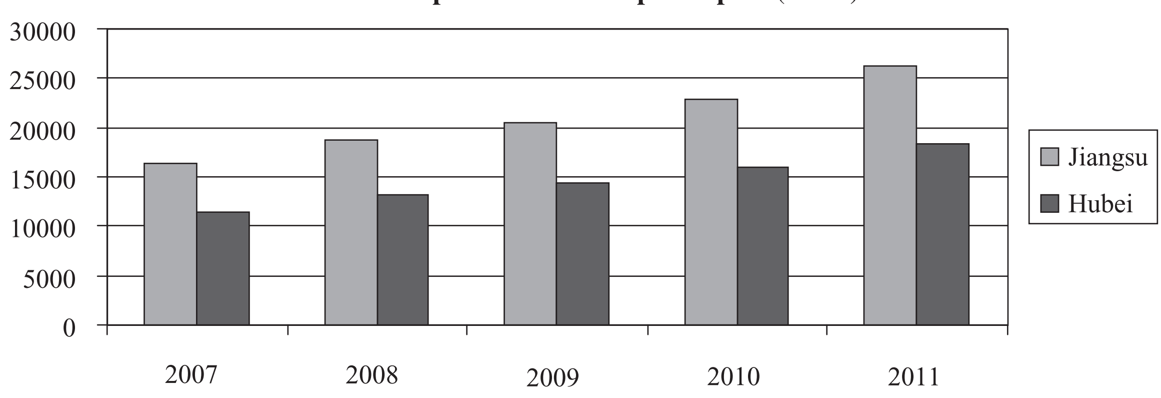
As shown in the following charts, the Jiangsu and Hubei regions have registered satisfactory economic growth in recent years as evidenced in a CAGR of approximately 17% and 20% in nominal GDP for Jiangsu province and Hubei province respectively and a CAGR of approximately 13% in annual disposable income per capita for both Jiangsu province and Hubei province from 2007 to 2011. It is believed that barring unforeseen circumstances, upon Completion, the Group will be able to benefit from the satisfactory economic growth of Jiangsu and Hubei provinces in developing the property development projects owned by the Acquired Group, i.e. PKU Resource – Li Cheng Project in Kunshan, Jiangsu and Honglianhu Project in Ezhou, Hubei, as well as the office leasing of International Building of Wuhan owned by the Acquired Group.

Nominal GDP of Jiangsu and Hubei
(RMB 1,000 millions)



Source: Jiangsu Provincal Bureau of Statistics, Hubei Provincal Bureau of Statistics

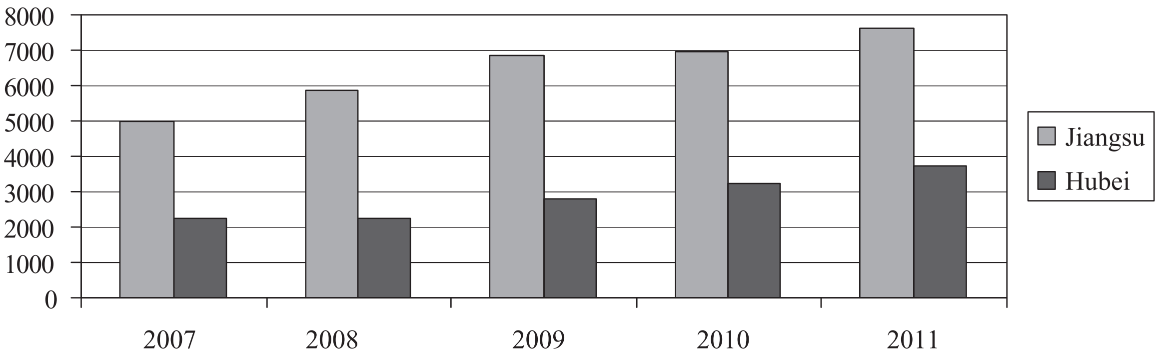
Annual disposable income per capita (RMB)



Source: Jiangsu Provincal Bureau of Statistics, Hubei Provincal Bureau of Statistics

Regarding the performance of the property markets in Jiangsu and Hubei, as illustrated in the following chart, both markets demonstrated a steady trend in the growth of floor space of residential buildings completed in Jiangsu and Hubei from 2007 to 2011. This indicates that domestic supply of residential units in the vicinity of the locations of the PKU Resource – Li Cheng Project and the Honglianghu Project remained fairly steady despite the introduction of austerity measures by the Central government since 2008.

Floor space of residential buildings completed
(in 10,000 square metres)

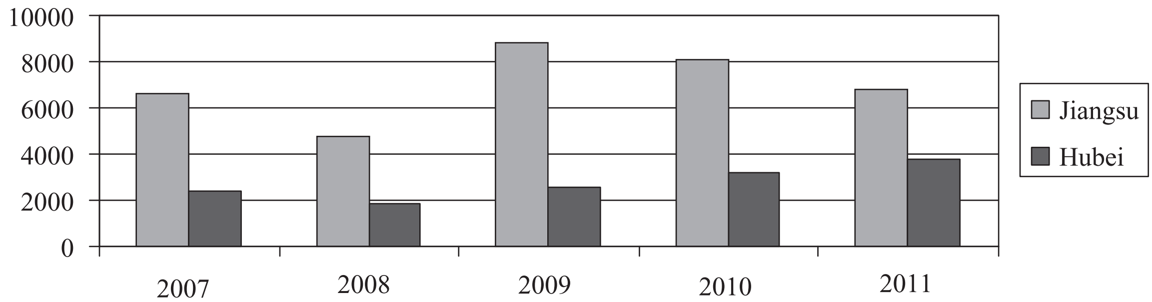


Source: National Bureau of Statistics of China

However, in terms of the growth of floor space of commercial residential buildings（商品住宅）sold, we note from the following chart that from 2009 to 2011, while the floor space of commercial residential buildings（商品住宅）sold in Hubei grew steadily, the floor space of commercial residential buildings（商品住宅）sold in Jiangsu declined gradually during the period which, as we understand from the management of the Company, was attributable to lower demand for residential units as a result of, amongst other things, control of land supply by the local government, elimination of less competitive developers and other local policies to counteract speculative activities during the period. Nonetheless, as disclosed in the Letter from the Board in the Circular, regarding the outlook and future prospects of Hubei Tianranju Group, the Directors are of the view that Jiangsu province is ranked as one of the top Chinese provinces in terms of GDP per capita amongst all Chinese provinces according to the National Bureau of Statistics of China and Kunshan is currently regarded as one of the most economically successful county level administrations in China. Accordingly, the Directors are of the view that the impact of austerity measures introduced at national and local government levels on Kunshan is relatively small and the Group is optimistic about the economic growth and development of the property industry in Kunshan and Jiangsu province.

Further, despite the decline in the floor space of commercial residential buildings sold in Jiangsu from 2009 to 2011, as disclosed in the Letter from the Board in the Circular, the Acquired Group has formally commenced the pre-sale of the villas with total gross floor area of approximately 41,463 square metres under Phase I development of the PKU Resource – Li Cheng Project in March 2012. By 6th November, 2012, 18 units or equivalent to approximately 4,768.87 square metres of gross floor area at a total sales consideration of approximately RMB53.2 million under the Phase I development have been sold. Deposits have been received for another 4 units representing approximately 1,142.21 square metres of gross floor area. It is expected that the relevant sales will be recognised in 2013. Proceeds from the pre-sale of properties in 2012 and 2013 are expected to be approximately RMB127.7 million and approximately RMB344.6 million respectively.

Floor space of commercial residential buildings（商品住宅）sold
(in 10,000 square metres)



Source: National Bureau of Statistics of China

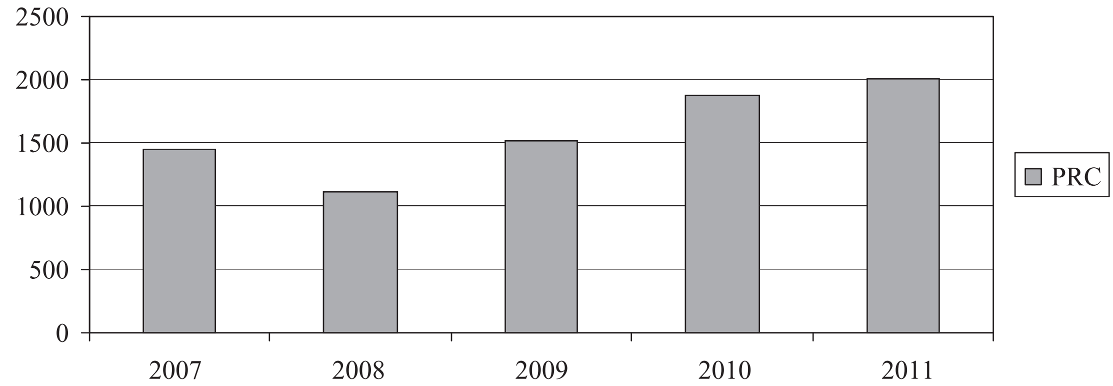
On the basis of our research of the property markets in the PRC and the Jiangsu and Hubei provinces and the reasons and analyses disclosed above in particular the positive development of the PRC property market from 2007 to 2011 as well as our discussions with the management of the Company regarding, amongst other things, the overall performance of the PRC property and the future prospects of the Acquired Group, in spite of the decline in the floor space of commercial residential buildings sold in Jiangsu from 2009 to 2011 which has been taken into account in our assessment of the terms of the Acquisition, we believe that the Group will have a better platform to expand into the property markets in these areas as well as other regions in the PRC upon completion of the Acquisition.

Office markets of Beijing and Wuhan

Apart from property development, the Acquired Group is engaged in the business of property management, which primarily includes the management of International Building of Wuhan via Hubei Tianranju. Upon Completion, it is expected that Founder International Building in Beijing will be added to the portfolio of properties under the Enlarged Group's management pursuant to the terms and conditions of the Master Lease Agreement.

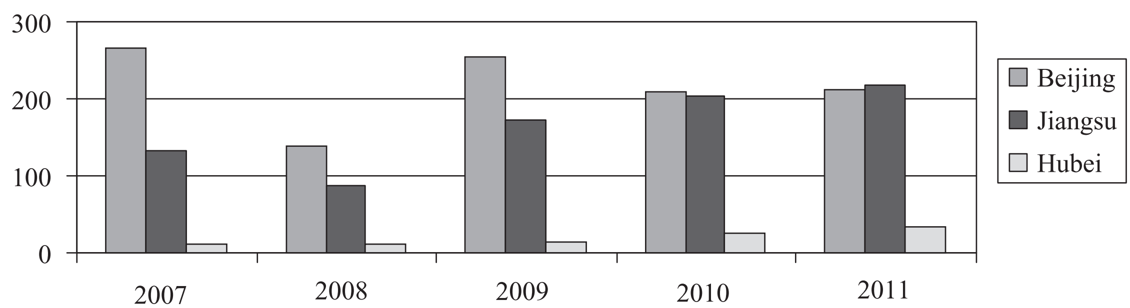
As shown in the two charts below, the office buildings market in the PRC as a whole demonstrated a steady growth for the past five years. In addition, the growth of floor space of office buildings sold in Jiangsu and Hubei demonstrated similar growth trend as the overall market while the floor space of office buildings sold in Beijing decreased from 2009 to 2010 and remained stable in 2010 and 2011.

Floor space of office buildings sold
(in 10,000 square metres)



Source: National Bureau of Statistics of China

Floor space of office buildings sold
(in 10,000 square metres)



Source: National Bureau of Statistics of China

With reference to the Letter from the Board in the Circular, monthly unit rental of A-grade office buildings in Beijing in the 2nd quarter of 2012 grew to approximately RMB288.55 per square meter which was approximately 3.96% higher than the 1st quarter. Demand for A-grade office buildings in Beijing in the 2nd quarter continued to exceed supply with vacancy rate reaching approximately 2.45% (1.1% lower than the 1st quarter). At the same time, due to the increase in monthly unit rental of certain office buildings, overall monthly unit rental of A-grade office buildings in Wuhan increased to approximately RMB90.5 per square meter, approximately 4.2% higher than the 1st quarter. Vacancy rate of A-grade office buildings in Wuhan decreased to approximately 18.2%, approximately 5% lower than the 1st quarter.

Please refer to the paragraphs headed "Overview of the PRC property industry – 4. Office rental markets of Beijing and Wuhan" in the Letter from the Board in the Circular for further details about the office rental markets of Beijing and Wuhan.

The Acquisition and Subscription

Principal terms of the S&P and Subscription Agreement

Date

23rd August, 2012

Parties

Purchaser:	The Company
Vendor:	Founder Information (Hong Kong) Limited

Assets to be acquired

The Sale Shares represent (i) 100% of the issued shares in Tianranju; and (ii) 100% of the issued shares in Tianhe. As at the Latest Practicable Date, all the legal and beneficial interest of the Sale Shares are owned by the Vendor. Tianranju was incorporated by the Vendor on 7th October, 2010, with an initial capital of HK$10,000. In December 2011, the Vendor injected additional capital of HK$19,812,000 to Tianranju. Tianhe was incorporated by the Vendor on 6th October, 2010, with an initial capital of HK$10,000. On 18th September, 2012, the Vendor injected additional capital of HK$100,341,000 to Tianhe.

Tianranju is directly interested in 100% of the equity interests in Hubei Tianranju and indirectly interested in (i) 51% of the equity interests in Kunshan Hi-Tech; and (ii) 100% of the equity interests in Beijing Tianranju. Tianhe owns 90% of the equity interests in Tianhe Property which in turn owns 95% of the equity interests in Ezhou Jinfeng.

Consideration

The total consideration for the Acquisition is HK$537 million, which will be satisfied by the issue of the Consideration Shares as to HK$227 million and Consideration Convertible Bonds as to HK$310 million. Out of the total consideration of HK$537 million for the Acquisition, approximately HK$215 million and HK$322 million were attributable to Tianranju and Tianhe respectively.

The consideration was determined among the parties after arm's length negotiations and taking into consideration, among other things, the consolidated net assets values of the Acquired Group after adjustments for the valuation of the properties owned by the Acquired Group and the proposed capital injection of RMB82 million by the Vendor into Tianhe before the Completion Date. Details of the calculation of the adjusted net asset values attributable to the owners of the parent of Tianranju and Tianhe as at 31st May, 2012 are set out in the paragraphs headed "Adjusted net asset value" in this letter below. For the valuation of the properties owned by the Acquired Group as at 31st August, 2012, please refer to the paragraph headed "Valuation of the proportion of the Acquired Group" in this letter below and Appendix V to this circular.

Conditions precedent

Please refer to the Letter from the Board in the Circular for details of the conditions precedent to completion of the S&P and Subscription Agreement.

Completion

Completion shall take place on the Completion Date, being the third Business Day following the fulfilment (or waiver thereof) of the conditions precedent or such other date as the parties to the S&P and Subscription Agreement may agree in writing.

Except for the charge over the Land Use Rights used to secure the entrusted loan under the Loan Agreement and the Entrusted Loan Agreement described below, the Directors expect that all assets and shares of the Acquired Group will be free from all encumbrances at Completion.

Consideration Shares

Upon Completion, the Company shall issue 527,906,976 new Shares to the Vendor at the issue price of HK$0.43 per Share (the "Issue Price") in partial settlement of the consideration for the Acquisition. The Consideration Shares represent approximately 47.73% of the issued share capital of the Company as at the Latest Practicable Date and approximately 32.31% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming no further Shares will be allotted and issued prior to the issue of the Consideration Shares). The Issue Price, which is equivalent to the Conversion Price, represents:

(i) a premium of approximately 22.86% over the closing price per Share of HK$0.35 as quoted on the Latest Practicable Date;

(ii) the closing price per Share of HK$0.43 as quoted on the Stock Exchange on the Last Trading Day;

(iii) the average closing price per Share of approximately HK$0.43 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 3.70% to the average closing price per Share of approximately HK$0.4465 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(v) a premium of approximately 40.07% over the audited consolidated net asset value attributable to the Shareholders per Share of approximately HK$0.307 as at 31st December, 2011; and

(vi) a premium of approximately 58.09% over the unaudited consolidated net asset value attributable to the Shareholders per Share of approximately HK$0.272 as at 30th June, 2012.

(vii) a discount of approximately 23.89% to the unaudited pro-forma consolidated net asset value attributable to the Shareholders per Share of approximately HK$0.565 as at 31st December, 2011.

The Subscription

The Subscription pursuant to the S&P and Subscription Agreement will provide the Company with HK$62 million cash for additional working capital. The gross and net proceeds of the Subscription are both HK$62 million. The terms of the Subscription Convertible Bonds are the same as the Consideration Convertible Bonds and will be analysed collectively as the Convertible Bonds in the following paragraphs.

Issue of the Convertible Bonds

As disclosed in the Letter from the Board in the Circular, the Company will issue the Convertible Bonds comprising (i) the Consideration Convertible Bonds in the principal amount of HK$310 million; and (ii) the Subscription Convertible Bonds in the principal amount of HK$62 million. The Consideration Convertible Bonds will be in partial settlement of the Consideration and the Subscription Convertible Bonds will be issued for cash on a dollar for dollar basis to provide additional working capital for the operation of the Group. The Convertible Bonds shall carry no interest and will be mature on the date falling on the fifth anniversary of the issue of the Convertible Bonds. The Convertible Bonds are not transferrable and carry no voting rights.

The Vendor and parties acting in concert with it, after the issue of the Consideration Shares and upon full exercise of the conversion rights attaching to the Convertible Bonds, assuming all outstanding share options granted under the Share Option Scheme are exercised, will be interested in 69.12% of the then issued share capital of the Company. In the event that the conversion of the Convertible Bonds will result in the non-compliance with the public float requirements as required under Rule 8.08 of the Listing Rules or will result in a change of control (as defined in the Takeovers Code) in the Company, the Company has no obligation to issue Shares to the Bondholder until the public float requirements can be met and there will be no change of control (as defined in the Takeovers Code) in the Company upon such conversion. The Convertible Bonds shall not be redeemed or repaid prior to the Bond Maturity Date except as otherwise provided.

The Issue Price and the Conversion Price

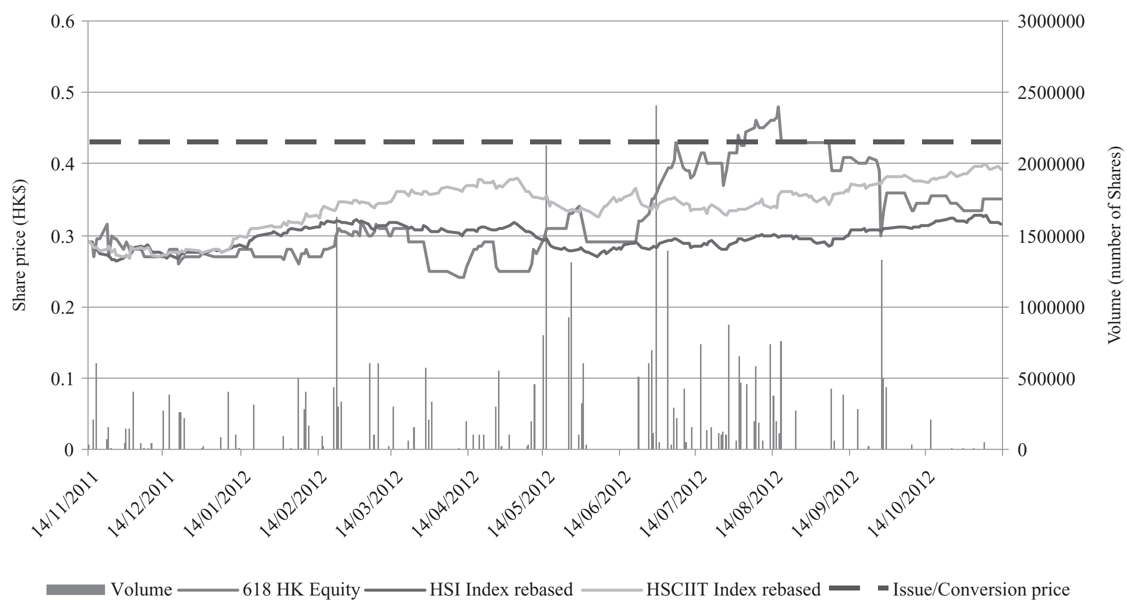
As explained above, the Consideration will be settled by issue of Consideration Shares and Consideration Convertible Bond upon Completion. The Issue Price is identical to the Conversion Price and the Convertible Bonds will carry no interest. Further, the Convertible Bonds shall be redeemed at the Bond Maturity Date by the Company by issuing Shares to the Bondholder and unless otherwise provided, the Convertible Bonds shall not be redeemed or repaid prior to the Bond Maturity Date.

As disclosed on page III-8 of the Circular, the Consideration Convertible Bonds as part of the consideration for the Acquisition are recognised as an equity instrument in the unaudited pro forma consolidated financial position in Appendix III to the Circular as the number of Shares into which the Consideration Convertible Bond could be converted was fixed at the issuance date and the Consideration Convertible Bonds were interest-free and not redeemable in cash. The Conversion Shares to be issued upon conversion of the Consideration Convertible Bonds thus have similar nature and characteristics to the Consideration Shares. In considering the fairness and reasonableness of the terms of the Consideration, we have therefore reviewed the Comparable Transactions (as defined below) whereby the terms of consideration were financed either entirely by an issue of new shares or by a combination of issue of consideration shares and convertible bonds and in the latter case, the issue price of the consideration shares is the same as the conversion price of the convertible bonds. Please refer to the analysis of the Comparable Transactions below for further information.

(i) Historical share price performance

The chart below shows the Share price performance of the Company relative to the Hang Seng Index and the Hang Seng Index Composite Index – Information Technology for the latest 12 months up to and including the Latest Practicable Date (the "Review Period"):

Performance of the Share price in the last 12 months



* *HSCIIT refers to Hang Seng Index Composite Index – Information Technology*
Source: Bloomberg

As shown in the chart above, the Share price of the Company ranged from HK$0.24 on 10th April, 2012 to the highest of HK$0.48 on 16th August, 2012. Each of the Issue Price and the Conversion Price, being HK$0.43, is at the high end of the price range of the Share during the Review Period.

During the Review Period, the share price of the Company was generally in line with the Hang Seng Index prior to July, 2012 and since then it outperformed the Hang Seng Index until the date of the Announcement. We note that the HSCIIT, which comprises stocks in the information technology sector listed on the Stock Exchange, has been outperforming the Hang Seng Index since January, 2012. The share price of the Company since the publication of the Announcement and up to the Latest Practicable Date was in line with the Hang Seng Index and HSCIIT.

(ii) Analysis of comparable very substantial acquisitions

We have identified 8 comparable very substantial acquisitions ("Comparable Transactions") in considering whether the terms of the Acquisition are fair and reasonable. In selecting the Comparable Transactions, we have focused on very substantial acquisitions which (i) were financed either entirely by an issue of new shares or by a combination of issue of consideration shares and convertible bonds; (ii) have the same issue price of the consideration shares and conversion price of the convertible bonds where the Comparable Transactions were financed by a combination of issue of consideration shares and convertible bonds; and (iii) were approved by the shareholders of the companies involved in the Comparable Transactions. As there was no such transaction announced during the last 12 months, we extended the review period to 24 months to obtain a meaningful number of Comparable Transactions.

To the best of our knowledge, the Comparable Transactions represent all comparable very substantial acquisitions based on our selection criteria described above. We summarise details of the Comparable Transactions in the following table:

Approved very substantial acquisitions in the last 24 months

						Premium/(discount) of the issue/ conversion price over/(to) the average closing share price of		
Date of announcement	**Stock code**	**Company name**	**Principal business**	**Market Cap at the last trading day** *HK$ million*	**Conversion price** *HK$*	**Last trading day** *%*	**5 trading days prior to the last trading day** *%*	**10 trading days prior to the last trading day** *%*
21st October, 2011	1060	ChinaVision Media Group Limited	Production & distribution of film rights; mobile game & TV subscription; mobile value-added services; advertising agency & newspaper and magazine distribution; other agency services; securities trading & investments.	968.41	0.4000	(13.98%)	(8.05%)	(4.76%)
11th October, 2011	8356	Tsun Yip Holdings Limited	Provision of waterwork engineering services, road works and drainage services and site formation works; and television broadcasting business.	577.34	0.1960	(59.59%)	(57.85%)	(55.05%)
13th June, 2011	3918	NagaCorp Ltd	Casino operations; hotel and entertainment operations.	4,372.37	1.8376	(12.50%)	(8.39%)	(6.24%)
14th April, 2011	563	Shanghai Industrial Urban Development Group Limited	Property development, property investment and hotel operations.	7,651.36	2.8000	(3.78%)	(2.37%)	1.74%

Date of announcement	Stock code	Company name	Principal business	Market Cap at the last trading day	Conversion price	Premium/(discount) of the issue/ conversion price over/(to) the average closing share price of Last trading day	5 trading days prior to the last trading day	10 trading days prior to the last trading day
				HK$ million	*HK$*	*%*	*%*	*%*
12th April, 2011	1823	Huayu Expressway Group Limited	Construction, operation and management of an expressway.	569.40	1.2800	(7.25%)	(7.65%)	(8.11%)
4th April, 2011	621	Wing Hing International (Holdings) Limited	Operations of coal mines and gold mine, leasing of mining licenses and sale of minerals.	1,111.15	0.4100	(31.67%)	(19.29%)	(15.72%)
1st February, 2011	661	China Daye Non-Ferrous Metals Mining Limited	Corporate investment and trading in securities, minerals exploitation and trading in non-ferrous metals.	3,298.81	0.5000	(15.25%)	(15.54%)	(14.53%)
31st December, 2010	135	Kunlun Energy Company Limited	Exploration & production of crude oil & natural gas in the PRC, the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic the Republic of Indonesia, sales & transmission of nature gas in PRC.	59,745.53	10.0200	(16.92%)	(17.63%)	(17.41%)
Max						(3.78%)	(2.37%)	1.74%
Min						(59.59%)	(57.85%)	(55.05%)
Median						(14.62%)	(11.97%)	(11.32%)
6th September, 2012	618	The Company	Distribution of information products.	475.61	0.4300	0.00%	0.00%	(3.70%)

Source: www.hkexnews.hk, www.hkex.com.hk, Bloomberg

The Consideration will be settled by a combination of Consideration Shares and the Consideration Convertible Bonds. Based on our selection criteria, the Comparable Transactions do not include very substantial acquisitions for listed issuers in the property sector as the terms of considerations of such transactions are different from those of the Acquisition. On the other hand, we consider that the analysis of Comparable Transactions is appropriate for the purpose of considering whether the terms of the Consideration are fair and reasonable by comparing them to those of the Comparable Transactions given that they are similar to the extent that the consideration of each Comparable Transaction includes either an issue of new shares or a combination of issue of consideration shares and convertible bonds and in the latter case, the issue price of the consideration shares is the same as the conversion price of the convertible bonds. Therefore, although the principal businesses and profitability of the listed companies and the targets in the Comparable Transactions are different from those of the Company and the Acquired Group and the terms of the Comparable Transactions are determined with reference to a number of factors in each individual case, we consider that the comparison of the premia/(discounts) of the Issue Price and the Conversion Price over/(to) the average closing prices per Share for the respective date/periods with those of the Comparable Transactions is relevant to assessing the fairness and reasonableness of the Consideration as it allows the Shareholders to appraise whether, on a relative basis, the Issue Price and the Conversion Price are at reasonable discounts compared to the Comparable Transactions and to ascertain the number of Consideration

Shares and Conversion Shares that have to be issued to satisfy the consideration in full. A larger discount of the issue price of consideration shares and the conversion price of convertible bonds generally implies that more shares of a company have to be issued.

As disclosed above, each of the Issue Price and the Conversion Price represents (i) the closing price per Share of HK$0.43 as quoted on the Stock Exchange on the Last Trading Day; (ii) the average closing price per Share of approximately HK$0.43 as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day and (iii) a discount of approximately 3.70% to the average closing price per Share of approximately HK$0.4465 as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day. Based on the analysis of the Comparable Transactions set out in the table above, we note that the 0% discount/premium of the Issue Price and the Conversion Price compare favourably to the median discounts of the issue prices of the consideration shares and the conversion prices of the convertible bonds to the corresponding benchmark prices in the Comparable Transactions. The Issue Price and the Conversion Price are equivalent to the closing price of the Shares on the Last Trading Day and the 5 day average closing price of the Shares as compared to the ranges of discounts of 3.78% to 59.59% and 2.37% to 57.85% for the respective date/period in the Comparable Transactions. In addition, the 3.70% discount of each of the Issue Price and the Conversion Price to the 10 day average closing price is within the range of the discounts/premiums of the issue prices of the consideration shares and the conversion prices of the convertible bonds to/over the 10 day average closing price in the Comparable Transactions.

We further complement our analysis of the terms of the Consideration by an analysis of the terms of the Comparable Convertibles (as defined below) since a major portion of the Consideration is financed by the issue of the Consideration Convertible Bonds.

Analysis of relevant terms of the Convertible Bonds

Conversion Price

In addition to the analysis of the terms of the Comparable Transactions above, we have on a best efforts basis indentified all comparable convertible bonds/notes announced by issuers listed on the Stock Exchange and issued to connected persons which were all issued for cash and, or settlement of acquisition consideration for the period from 13th May, 2012 to 12th November, 2012 ("Comparable Convertibles") for the purpose of comparing the principal terms of the Convertible Bonds with those of the Comparable Convertibles. As the Acquisition constitutes both a very substantial acquisition and a connected transaction under the Listing Rules, in considering the terms of the Convertible Bonds, we have focused on transactions involving the issue of convertible bonds/notes which also constitute connected transactions. We are of the view that the comparisons of the Comparable Convertibles compliment the review of the Comparable Transactions which have a longer review period of 24 months and are chosen under a different set of selection criteria because (i) the terms of the Acquisition include the issue of convertible bonds and (ii) there was no comparable very substantial acquisition in the review period of the Comparable Convertibles and the review period of 6 months prior to the Latest Practicable Date could therefore reflect the latest market conditions under which the terms of the Comparable Convertibles were determined. The key terms of the Comparable Convertibles are summarised as follows:

List of comparable convertible bonds/notes announced in the last 6 months

Company name	Stock code	Date of announcement	Terms	Interest rate	Conversion price	Premium/(discount) of conversion price over/(to) the average closing share price of: Last trading day	5 trading days prior to the last trading day	10 trading days prior to the last trading day
			Years	*%*	*HK$*	*%*	*%*	*%*
Brockman Mining Limited	159	2nd November, 2012	3.00	5.00%	0.4100	3.80%	3.02%	(2.03%)
China Renewable Energy Investment Limited	986	2nd November, 2012	3.00	6.40%	0.6800	194.00%	212.00%	212.00%
Viva China Holdings Limited	8032	17th October, 2012	Perpetual	0.00%	0.3250	0.00%	1.56%	1.88%
North Asia Resources Holdings Limited	61	8th October, 2012	5.00	Variable	0.1700	(39.30%)	(37.00%)	(35.10%)
China Boon Holdings Limited	922	18th September, 2012	5.00	0.00%	0.1000	11.11%	9.41%	7.30%
Guangdong Nan Yue Logistics Company Limited	3399	17th September, 2012	Perpetual	1.00%	3.3400	155.07%	158.23%	159.32%
REXLot Holdings Limited	555	4th September, 2012	4.00	6.00%	0.6175	12.27%	15.08%	19.67%
Carnival Group International Holdings Limited	996	13th July, 2012	5.00	0.00%	0.3000	1.69%	(18.48%)	(10.71%)
Epicurean and Company, Limited	8213	28th June, 2012	3.00	2.00%	0.0800	21.21%	17.99%	14.94%
China Pharmaceutical Group Limited	1093	26th June, 2012	5.00	0.00%	2.1500	4.88%	12.57%	30.30%
China Power New Energy Development Company Limited	735	26th June, 2012	5.00	0.00%	0.6500	106.30%	107.00%	106.30%
Greentown China Holdings Limited	3900	8th June, 2012	Perpetual	Variable	7.4000	38.30%	48.20%	49.70%
Media China Corporation Limited	419	25th May, 2012	3.00	0.00%	0.1000	8.70%	11.86%	12.36%

Notes: figures calculated using the initial conversion prices and premiums as stated in the announcements

Max			5.00	6.40%		194.00%	212.00%	212.00%
Min			3.00	0.00%		(39.30%)	(37.00%)	(35.10%)
Median			4.50	0.00%		11.11%	12.57%	14.94%
Average			4.10	1.85%				
The Company	618	6th September, 2012	5.00	0.00%	0.43	0.00%	0.00%	(3.70%)

Source: www.hkexnews.hk

While the median premia of the conversion prices of the Comparable Convertibles are higher than the discounts of the Conversion Price to the benchmark prices of the Share for the relevant date/periods, the 0% discount/premium and 3.70% discount of the Conversion Price to the Last Trading Day/five day average closing price and ten day average closing price of the Shares, respectively, are within the ranges of the discounts/premiums of the conversion prices of the Comparable Convertibles to/over the corresponding benchmark prices.

Interest of the Convertible Bonds

The Convertible Bonds shall not bear any interest. We consider that this is a favourable term to the Company as the Company has no obligation to pay any interest to the Bondholder throughout the term of the Convertible Bonds. We note from the table of Comparable Convertibles above that the interest rates of the Comparable Convertibles ranged from nil to 6.4% and 3 of them have perpetual terms with variable interest rates. 6 Comparable Convertibles also do not carry any interest. The interest of the Convertible Bonds is thus within the market range of interest rates of the Comparable Convertibles.

Maturity date

The maturity date of the Convertible Bonds is the date falling on the fifth anniversary of the issue of the Convertible Bonds, and the Bond Maturity Date shall be extended in the circumstances described in the paragraphs headed "Conversion right" below. We note from the table of Comparable Convertibles above that of the 13 Comparable Convertibles, 5 of them have a term of 5 years and 3 of them have perpetual terms. The term of the Convertible Bonds is therefore comparable to those of the Comparable Convertibles.

Conversion right

As disclosed in the Letter from the Board in the Circular, the Bondholder shall not convert the Convertible Bonds which will cause the Company to be unable to meet the public float requirements as required under Rule 8.08 of the Listing Rules or will result in a change of control (as defined in the Takeovers Code).

If conversion of the Convertible Bonds on the Bond Maturity Date will result in the non-compliance with the public float requirements as required under Rule 8.08 of the Listing Rules or will result in a change of control (as defined in the Takeovers Code) in the Company, the Bond Maturity Date shall be extended to a further five year period automatically with all other terms and conditions of the Convertible Bonds remaining the same. Such extension of the Bond Maturity Date shall repeat until conversion of the Convertible Bonds on the extended Bond Maturity Date will neither result in the non-compliance with the public float requirements as required under Rule 8.08 of the Listing Rules nor will result in a change of control (as defined in the Takeovers Code) in the Company.

We are of the view that the conversion right is a reasonable term on the basis that it allows the Bondholder to convert the Convertible Bonds into Conversion Shares prior to the Bond Maturity Date, or any extended Bond Maturity Date, on one hand and ensures that the Company is able to comply with the public float requirements under Rule 8.08 of the Listing Rules at all material times on the other hand.

Conversion Price adjustment

We noted that it is not unusual for the conversion price of a convertible security to be subject to adjustment on occurrence of certain events as stipulated in the terms and conditions of the Convertible Bonds. We consider that the Conversion Price adjustment is a customary commercial term determined on the basis of arm's length negotiations to ensure that the Bondholder, on conversion of the Convertible Bonds, and other Shareholders are treated on a fair and equal basis.

Transferability

The Convertible Bonds shall not be transferable without prior written consent of the Company. We consider that this arrangement enables the Company to better monitor the distribution of the shareholdings of the Company and hence is in the interest of the Company and its Shareholders as a whole.

The Directors (including the independent non-executive Directors) consider that the issue of the Consideration Convertible Bonds as part of the consideration for the Acquisition and the issue of the Subscription Convertible Bonds for the Subscription is fair and reasonable and in the interests of the Shareholders as a whole. The issue of the Consideration Convertible Bonds will pose less pressure on the cash resources of the Company, which can otherwise be utilised for the Group's general working capital purposes. Besides, the proceeds from the Subscription is primarily intended, but not restricted to be used for property development of the Acquired Group, which provides additional working capital for the operation of the Group, especially for the property business after Completion.

Details of the principal terms of the Convertible Bonds are disclosed in the Letter from the Board in the Circular.

On the basis of the above analyses, we consider that the allotment and issue of the Consideration Shares and the Conversion Shares upon conversion pursuant to the terms and conditions of the Convertible Bonds in settlement of the consideration for the Acquisition and in acquiring additional working capital for the operation of the Group to be on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders.

Tax indemnity

We refer to the tax indemnity disclosed in the Letter from the Board in the Circular and consider that the provisions of the tax indemnity are favourable to the Group as the Group will be indemnified by the Vendor against any loss or liability suffered or incurred by the Company or any member of the Acquired Group resulting from or by reference to, amongst other things, any event on or before the Completion Date as a result of the Acquisition.

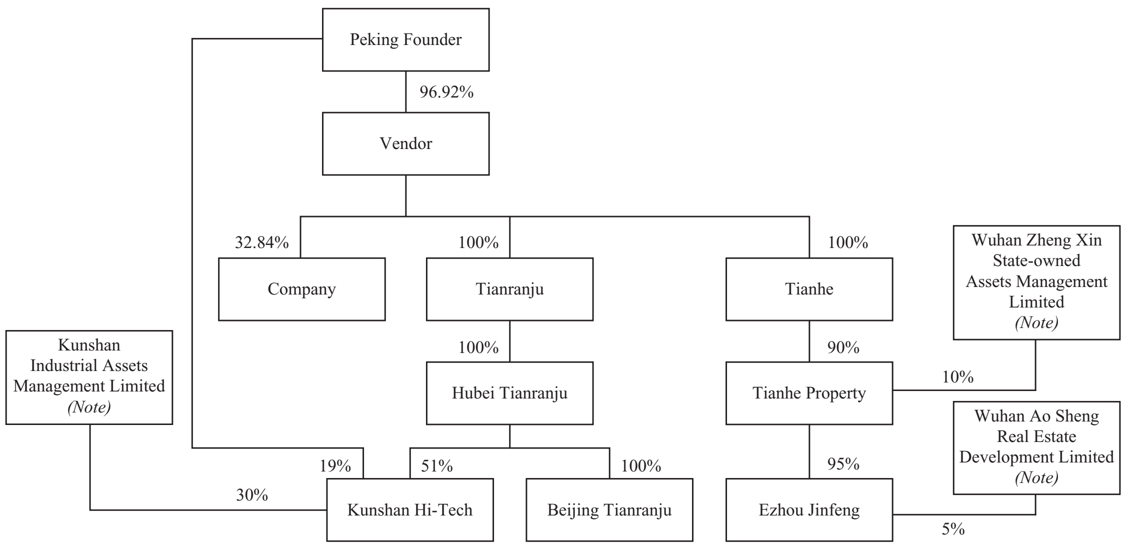
Application for listing

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares to be issued upon conversion pursuant to the terms and conditions of the Convertible Bonds.

Background information on the Acquired Group

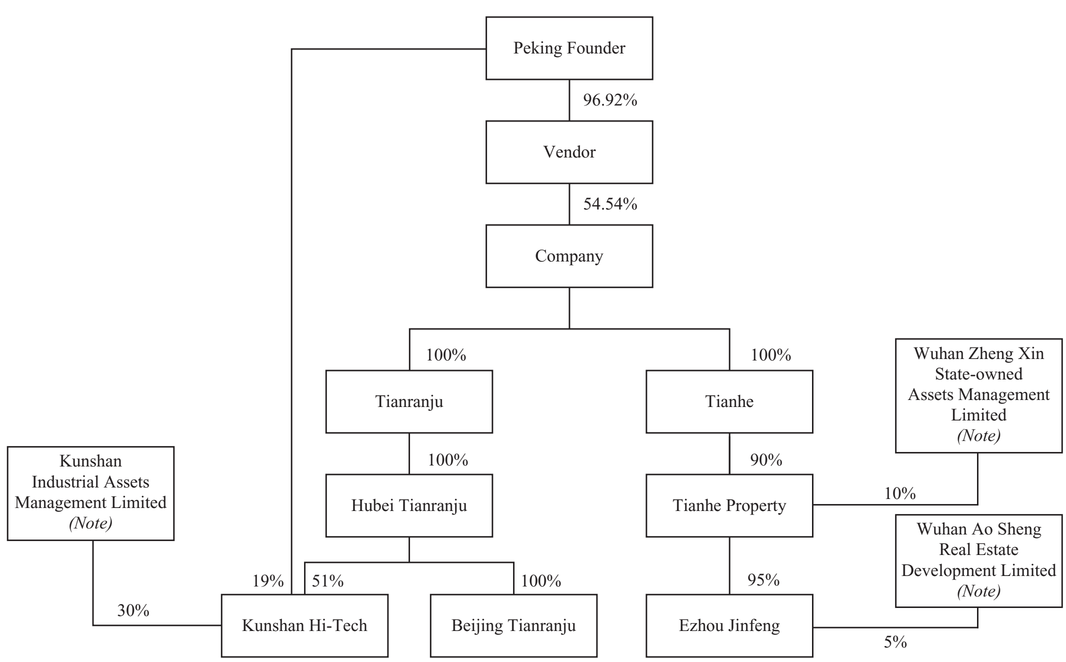
As disclosed in the Letter from the Board in the Circular, the Acquired Group consists of Tianranju, Tianhe and their respective subsidiaries as described below.

The shareholding structure of the Group and the Acquired Group prior to Completion is as follows:



Note: *Each of these entities and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. Further, each of these entities does not hold any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.*

Immediately after Completion, the shareholding structure of the Group is as follows:



Note: Each of these entities and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons. Further, each of these entities does not hold any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

The Acquisition will not result in a change of control of the Company.

Tianranju

Tianranju is an investment holding company incorporated in Hong Kong with limited liability. It is directly interested in 100% of the equity interests in Hubei Tianranju and is indirectly interested in (i) 51% of the equity interests in Kunshan Hi-Tech; and (ii) 100% of the equity interest in Beijing Tianranju.

Tianranju acquired 100% equity interests in Hubei Tianranju in March, 2011, whereas Hubei Tianranju acquired 51% of the equity interests in Kunshan Hi-Tech from China Hi-Tech Group Company Limited, shares of which were owned as to approximately 24.4% by Peking Founder, in November 2011.

The original purchase cost of 100% equity interests in Hubei Tianranju by Tianranju was approximately RMB16.11 million; the original purchase cost of 51% equity interests in Kunshan Hi-Tech by Hubei Tianranju was approximately RMB152.64 million. Beijing Tianranju was established by Hubei Tianranju in June, 2012 with registered capital of RMB1 million. The audited consolidated net asset value of Tianranju attributable to owners of the parent as at 31st May, 2012 was approximately RMB23.8 million.

Hubei Tianranju is a company established in the PRC with limited liability and is principally engaged in property investment business and property leasing. Kunshan Hi-Tech is a company established in the PRC with limited liability and is principally engaged in property development business. Beijing Tianranju is a company established in the PRC with limited liability and is principally engaged in property leasing. The two major businesses of Hubei Tianranju Group are the leasing of commercial units of International Building of Wuhan and the development of the PKU Resource – Li Cheng Project.

PKU Resource – Li Cheng Project

PKU Resource – Li Cheng Project is wholly owned by Kunshan Hi-Tech and is located in Hongqi Industrial District, Bacheng Town, Kunshan city, Jiangsu, which is in the Yangchenghu Recreation and Tourism District（陽澄湖休閒旅遊片區）under the overall city development plan of Kunshan.

The following table summarises key information relating to Phase I development of the PKU Resource – Li Cheng Project in Kunshan:

Approximate total planned site area	451,567 square meters
The Company's interest in the project	51%
Development period	2011 to 2018
Total expected investment	RMB4,670 million
Invested amount as at 31st August, 2012	RMB450 million
Capital commitment for the two years ending 31st December, 2014	RMB350 million
Method of financing	The Entrusted Loan/ per-sale and sale of properties/self-finance after 2014
Project progress as at the 31st August, 2012	9.70%

As disclosed in the Letter from the Board in the Circular, the target customers for the Phase I development will be those from Shanghai, Suzhou and Kunshan areas who are in pursuit of better and relaxing living environments. The pre-sale of the villas with the total gross floor area of approximately 41,463 square metres under Phase I development has been formally commenced in March, 2012. By 6th November, 2012, 18 units or equivalent to approximately 4,768.87 square metres of gross floor area at a total sales consideration of approximately RMB53.2 million under the Phase I development has been sold. Deposit have been received for another 4 units representing approximately 1,142.21 square metres of gross floor area. It is expected that the relevant sales will be recognised in 2013. Proceeds from the pre-sale of properties in 2012 and 2013 are expected to be approximately RMB127.7 million and RMB344.6 million respectively.

The development period for Phase I development, which will comprise low rise apartment buildings, an arts exhibition centre, a creative arts workshop and auxiliary facilities, is expected to be from 2011 to 2018. On top of the Entrusted Loan, it is expected that Kunshan Hi-Tech will be able to self-finance the project after 31st December, 2014 by proceeds from the sale of its properties without material additional capital commitment. As of 31st August, 2012, approximately RMB318 million of construction costs incurred and approximately 9.7% of Phase I development has been completed. According to the management of the Company, the arts exhibition centre and creative arts workshop, which are expected to occupy less than 3% of the total gross floor area of the Phase I development of the PKU Resource – Li Cheng Project, are only additional facilities to promote the PKU Resource Li Cheng Project as a residential project in a local cultural and technology hub to be developed in the Kunshan area.

The total planned site area of Phase II development is approximately 204,000 square meters, which will comprise residential buildings, an electronic arts complex (including offices, exhibition centres and training centres), as well as auxiliary business facilities. There is currently no definite timetable for Phase II development. Depending on the progress of Phase I development, Kunshan Hi-Tech will continuously assess the prevailing market condition, the availability of funds and the macro economic environment to formulate the detailed timetable, capital commitment and project development plan for Phase II development.

According to Appendix IV to the Circular, the PKU Resource – Li Cheng Project is a combined property development project which features an art exhibition centre, commercial properties and residential properties in Bacheng, Kunshan, Jiangsu province. Jiangsu province is ranked as one of the top Chinese provinces in terms of GDP per capita and Kunshan is currently regarded as one of the most economically successful county-level administrations in China. Having considered the quality and location of the PKU Resource – Li Cheng Project and the economic growth of Kunshan city and Jiangsu province, it is believed that PKU Resource – Li Cheng Project will provide a remarkable income and cashflow to Hubei Tianranju Group when completed.

A parcel of land at Huangpo District

The land was located at Lamei Village Yaoji Town, Huangpo District, Wuhan city, Hubei with a total site area of approximately 486,669.1 sq.m. Hubei Tianranju acquired the land by way of Si Huang Auction (四荒拍賣). The land is collectively owned and designated for agriculture development and ecotourism purposes until 11th February, 2048. According to the legal opinion of the Company's PRC lawyers and as disclosed in "Appendix V – Property Valuation" to the Circular, should Hubei Tianranju want to transfer the land use rights of the property, it is required to obtain consent from the related Rural Collective Sector Organization and endorsement by the village/township people's government prior to submission to the county people's government for its approval. No premium is required for transferring the land use right.

It is the intention of Hubei Tianranju to use the land for long term investment purpose in accordance with the approved usage of the land but there is currently no definite plan. Depending on the overall business development progress, Hubei Tianranju will formulate the detailed timetable and business development plan on the land when appropriate. Since Hubei Tianranju plans to hold the land for long term investment purpose and has no intention to transfer the ownership, the abovementioned approval requirements for transferring the land use right will not have any adverse impact on Hubei Tianranju.

International Building of Wuhan

International Building of Wuhan is an A-grade office building with total gross floor area of approximately 35,000 square meters. Upon Completion, the Company will through Hubei Tianranju own approximately 26,963.32 square meters of gross floor area, representing approximately 77% of the total gross floor area of International Building of Wuhan. It is an A-grade office building located in Wuguang business district, one of the four major business areas of Wuhan with established transportation network, as well as hotel and other business related facilities.

According to Appendix IV to the Circular, the Directors consider that International Building of Wuhan will continue to provide stable income stream for the Hubei Tianranju Group in view of the current high occupancy rates of International Building of Wuhan.

Hubei Tianranju now owns the use right of the land with an aggregated area of 761.91 square meters on which the aforementioned building is constructed. The planned use of the land is for commercial service, and the land use right is granted by allocation. Hubei Tianranju obtained the State-owned Land Use Right Certificates of the land in September 2009. Hubei Tianranju shall obtain the approval from the land authority at city or county level if it plans to transfer the aforementioned allocated land use right. After obtaining such approval, the transferee shall handle the granting procedures and pay the premium for the land use right.

Since it is the intention of Hubei Tianranju to possess and operate leasing business of International Building of Wuhan on a long term basis, Hubei Tianranju will not transfer the ownership of International Building of Wuhan or the related land use right. It is the responsibility of the transferee to handle the granting procedures, or pay any premium for transferring. Thus, the requirement of approval for transferring the land use right will not have any adverse impact on the current leasing business of Hubei Tianranju.

According to applicable PRC laws and regulations, for the rental of properties being constructed on allocated land, part of the rental income which represents the revenue from the land should be paid to the relevant government department. Based on the requirement by Housing Bureau of Jianghan District of Wuhan (武漢市江漢區房管局), Hubei Tianranju should pay an annual sum of RMB50,000 as revenue from the land and rental registration fee and this will continue after Completion.

As advised by the Company's PRC legal adviser, the acquisition of Tianranju by the Company is not subject to any approval of PRC governmental department because of the fact that Hubei Tianranju owns the aforesaid allocated land use right. Besides, if Hubei Tianranju remains as the owner of the subject land use right, it is permitted by the PRC law for the Group to dispose of its equity interest in Hubei Tianranju after Completion even if the abovementioned transfer restriction has not yet been rectified.

As disclosed in the Letter from the Board in the Circular, the average monthly rental of International Building of Wuhan was approximately RMB21.0, RMB22.7, RMB22.9 and RMB23.7 per square meter for the three years ended 31st December, 2011 and five months ended 31st May, 2012 respectively, being lower than that of the Wuguang business district. The reason for the lower rental is that International Building of Wuhan is situated in the outskirt of the Wuguan business district and it was built in 1993 with its tenants mainly being small to medium-sized companies. Upon Completion, the Company will evaluate whether there is a need to renovate International Building of Wuhan, to engage in more promotional activities with the aim to promote the image of International Building of Wuhan so as to attract higher quality tenants and for rental appreciation. The Directors expect this could upgrade the overall image of and maximize the value generated from the building through attracting sizable companies with better quality and higher rental income.

According to the historical financial information of Hubei Tianranju contained in Appendix II(A), the rental income of International Building of Wuhan has been sufficient to generate after tax profit for Hubei Tianranju for the past three years. The loss for the five months ended 31st May, 2012 of Hubei Tianranju was mainly attributable to the increase in selling and distribution costs and administrative expenses incurred by Kunshan Hi-Tech.

Such costs and expenses incurred by Kunshan Hi-Tech were mostly related to the PKU Resource – Li Cheng Project, which as explained in the Letter from the Board in the Circular, will be financed by pre-sale and sale of properties and be self-financed after 2014. While HK$291.4 million out of the HK$284.4 million pro forma profits of the Group was recognized as one-off gain from bargain purchase and is not recurring in nature and the income from International Building of Wuhan is insignificant, it is expected that upon completion of the PKU Resource – Li Cheng Project and the Honglianhu Project, the Acquired Group will be in a position to realise significant revenues from the sale of properties. Relevant risk factors associated with the Acquisition and the development of the PKU Resource – Li Cheng Project and the Honglianhu Project are disclosed in the Letter from the Board in the Circular.

Taking into account (i) the fact that International Building of Wuhan is expected to provide immediate stable income stream as evidenced by the steady revenue and profits it generated for the last three years; (ii) the long term investment value of International Building of Wuhan and the parcel of land at Huangpo District which are owned by the Acquired Group; (iii) no cash outlay by the Group being required for the Acquisition and no additional cost incurred by the Group in acquiring International Building of Wuhan and the parcel of land at Huangpo District; (iv) our assessment of the long term investment value of International Building of Wuhan and the parcel of land at Huangpo District as disclosed in the section titled "Valuation of the properties of the Acquired Group" in this letter; and (v) other principal reasons and factors set out in this letter, we consider the acquisition of International Building of Wuhan and the parcel of land at Huangpo District to be fair and reasonable.

Tianhe

Tianhe is an investment holding company incorporated in Hong Kong with limited liability. Tianhe directly owns 90% of the equity interests in Tianhe Property which in turn owns 95% of the equity interests in Ezhou Jinfeng.

Tianhe acquired 90% equity interest in Tianhe Property in March, 2011, whereas Tianhe Property acquired 95% equity interest in Ezhou Jinfeng in June, 2009. The original purchase cost of 90% equity interests in Tianhe Property by Tianhe was approximately RMB81.73 million and the original purchase cost of 95% equity interests in Ezhou Jinfeng by Tianhe Property was approximately RMB62.60 million. The audited consolidated net asset value of Tianhe attributable to owners of the parent as at 31st May, 2012 was approximately RMB191.7 million.

Tianhe Property is a company established in the PRC with limited liability and is principally engaged in property development, leasing and sales. Ezhou Jinfeng is a company established in the PRC with limited liability and is principally engaged in property development.

Through Tianhe Property, Tianhe is interested in the Honglianhu Project, a property development project in Ezhou comprising low-rise apartment buildings, high-rise residential buildings and other travel facilities.

The following table summarises key information relating to the Honglianhu Project in Ezhou:

Approximate total planned site area	675,000 square meters
The Company's interest in the project	90%
Development period	2013 to 2019
Total expected investment	RMB3,320 million
Invested amount as at 31st August, 2012	not applicable
Capital commitment for the two years ending 31st December, 2014	RMB330 million
Method of financing	Internal resources/external funding or funds to be provided by PKU Resource/pre-sale and sale of properties/ self-finance after 2014

The Honglianhu Project is currently under planning and preparation stage with no construction cost being incurred up to the Latest Practicable Date. It is expected that the construction of Honglianhu Project will be started in 2013 and completed by 2019. All the relevant land use rights of Honglianhu Project have been properly obtained. The total expected investment amount of Honglianhu Project is approximately RMB3.32 billion and the expected capital commitment required for the two years ending 31st December, 2014 is approximately RMB330 million. The initial capital commitment required for the development of the Honglianhu Project prior to 2014 is expected to be funded by (i) the Group's internal resources and (ii) external funding or funds to be provided by PKU Resource pursuant to its confirmation as described in the paragraph headed "Reasons for and benefits of the Acquisition and the Subscription" in this letter; and (iii) proceeds from pre-sale which is expected to commence in 2013/2014. After 2014, the bulk sale of units shall commence, which is expected to generate substantial cashflow to fund the remaining development of project. Therefore, it is expected the project will be able to self-finance itself after 31st December, 2014 by proceeds from the sale of its properties without additional material capital commitment required.

According to Appendix IV to the Circular, the Honglianhu Project is located in the Honglianhu Tourism New Town (紅蓮湖旅遊新城), Ezhou city, Hubei province. Traditionally an industrial and agricultural province, Hubei province ranked 11th in China in terms of GDP in 2011. The property project is located adjacent to Honglianhu Lake and Honglianhu golf course, and is in close proximity to Wuhan city. The proposed villa type of property of the project, coupled with the scenic surroundings and the established transportation network, is expected to be well received by potential buyers. It is believed that the Honglianhu Project will generate long term return on investment for the Group.

For further information on Tianranju and Tianhe, including details of the PKU Resource – Li Cheng Project, the Honglianhu Project, the parcel of land at Huangpo District and International Building of Wuhan, please refer to the Letter from the Board and Appendix IV to the Circular.

Financial overview of the Acquired Group

The key financial information of each of Tianranju and Tianhe is summarised as follows:

Financial Information of Tianranju

Consolidated Statement of Financial Position

	31st May, 2012 (Audited) RMB'000	31st December, 2011 (Audited) RMB'000	2010 (Audited) RMB'000
Total assets	619,693	625,575	8
Total liabilities	(491,148)	(488,798)	(22)
Net assets	128,545	136,777	(14)

As shown in the table above, the financial position of Tianranju remained relatively stable from 31st December, 2011 to 31st May, 2012 after its acquisition of 100% of Hubei Tianranju in March, 2011 and the acquisition of 51% of Kunshan High-tech by Hubei Tianranju in November, 2011.

Consolidated Statements of Comprehensive Income

	For the five months ended 31st May, 2012 (Audited) RMB'000	2011 (Unaudited) RMB'000	For the year ended 31st December, 2011 (Audited) RMB'000	For the period from 7th October, 2010 (date of incorporation) to 31st December, 2010 (Audited) RMB'000
Revenue	2,543	1,470	4,963	–
Gross profit	2,273	1,017	4,157	–
Total comprehensive income/(loss) for the year attributable to owners of the parent	(3,803)	8,101	11,411	(23)

The revenue of Tianranju in each of the respective financial periods above was primarily generated from the rental income of International Building of Wuhan. As the PKU Resource – Li Cheng Project has only started its pre sale of properties in March 2012 in relation to part of Phase I development, the proceeds from the presale of properties has not been recognised as revenue. The loss attributable to owners of the parent for the five months ended 31st May, 2012 was attributable to selling and distribution costs and administrative expenses incurred by Kunshan Hi-Tech which was acquired by Hubei Tianranju in November, 2011, in relation to, amongst other things, development and marketing of Phase I development of the PKU Resource – Li Cheng Project.

Please refer to the sections headed "I. Management discussion and analysis of Hubei Tianranju Group" and "II. Management discussion and analysis of Tianranju Group" in Appendix IV to this circular for the detailed discussion on the financial performance of Hubei Tianranju and Tianranju.

Financial Information of Tianhe

Consolidated Statement of Financial Position

	31st May, 2012	**31st December, 2011**	**2010**
	(Audited)	*(Audited)*	*(Audited)*
	RMB'000	*RMB'000*	*RMB'000*
Total assets	365,537	418,249	8
Total liabilities	(143,478)	(195,067)	(14)
Net assets	222,059	223,182	(6)

As shown above, the financial positions of the Tianhe remained stable as at 31st December, 2011 and 31st May, 2012 after its acquisition of 90% interests in Tianhe Property in March 2011.

Consolidated Statements of Comprehensive Income

	For the five months ended 31st May,		**For the year ended 31st December,**	
	2012	**2011**	**2011**	**2010**
	(Audited)	*(Unaudited)*	*(Audited)*	*(Audited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	–	–	–	–
Other income and gains	538	195,117	195,747	–
Total comprehensive income/(loss) for the year attributable to owners of the parent	(1,011)	194,037	192,692	(15)

We noted that up to 31st May, 2012, Tianhe has not yet completed any development project and therefore no revenue was generated. The other income and gains in 2011 were mainly attributable to the acquisition of Tianhe Property in March, 2011, and the other income and gains of RMB538,000 for the five months ended 31st May, 2012 was mainly attributable to the pay back of Tianhe of the investment costs Tianhe Property incurred in an investment in year 2005 together with the respective interest as referred to in Appendix IV to the Circular.

The profit attributable to owners of the parent of RMB192,691,000 for the year ended 31st December, 2011 was mainly attributable to an extraordinary gain on bargain purchase upon acquisition of Tianhe Property and the loss for the period attributable to owners of the parent of RMB1,011,000 for the five months ended 31st May, 2012 was mainly due to the administrative expenses of Tianhe Property after Tianhe acquired Tianhe Property in 2011.

Please refer to the sections headed "III. Management discussion and analysis of Tianhe Property Group" and "IV. Management discussion and analysis of Tianhe Group" in Appendix IV to this circular for the detailed discussion on the financial performance of Tianhe Property and Tianhe.

As disclosed in the paragraphs headed "(V) Adverse opinion in respect of the financial information of Tianhe Property Group and Tianhe Group" in Appendix IV to the Circular, we note that due to insufficient books and records retained by two subsidiaries of Tianhe Property Group, Chutian Era and Hongbo, which had been disposed of by the end of May, 2012, and the non-consolidation of the results of these two subsidiaries from the date of acquisition to their respective date of disposal, the reporting accountants of the Company have issued an adverse opinion in respect of (i) the state of affairs of Tianhe Property Group as at 31st December, 2009, 2010 and 2011 and the consolidated results and cashflow of Tianhe Property Group for the three years ended 31st December, 2011 and for the five months ended 31st May, 2012; and (ii) the state of affairs of Tianhe Group as at 31st December, 2011 and the consolidated results and cashflow for the year ended 31st December, 2011 and the five months ended 31st May, 2012. However, despite the above adverse opinion issued, the reporting accountants are of the opinion that the financial information of Tianhe Property Group (including Tianhe Property) and Tianhe Group (including Tianhe) gives a true and fair view of (i) the state of affairs of Tianhe Property Group as at 31st May, 2012 and of Tianhe Property as at 31st December, 2009, 2010 and 2011 and 31st May, 2012; and (ii) the state of affairs of Tianhe Group as at 31st December, 2010 and 31st May, 2012 and of Tianhe as at 31st December, 2010 and 2011 and 31st May, 2012 and the consolidated results and cashflow of Tianhe Group for the period from 6th October, 2010 (date of incorporation) to 31st December, 2010. For further details, please refer to Appendix II(C) and Appendix II(D) to the Circular.

In view of the above and having considered that Tianhe Property Group had already disposed of its interests in Chutian Era and Hongbo by the end of May, 2012 and Chutian Era and Hongbo are not members of the Acquired Group under the Acquisition, we concur with the Directors' views that (i) the consideration for the Acquisition is fair and reasonable with reference to the consolidated net asset values of the Acquired Group as at 31st May, 2012; (ii) the non-consolidation of the results of Chutian Era and Hongbo will no longer affect the results of the Tianhe Property Group and Tianhe Group since the dates of the relevant disposal, which were before the Completion Date and as the results of the Acquired Group will only be consolidated into the Group's financial statements from the Completion Date, the non-consolidation of Chutian Era and Hongbo by Tianhe Property before the Completion will not have any impact on the Company's consolidated financial statements and audit opinion after Completion; and (iii) the adverse opinion on Tianhe Property Group and Tianhe Group issued by the reporting accountants would not have material adverse implications on the transactions being contemplated under the S&P and Subscription Agreement.

In addition, as disclosed in the paragraph under "Tax indemnity" under the section "The Acquisition and the Subscription – Principal terms of the S&P and Subscription Agreement" above, the Group will be indemnified by the Vendor against any loss or liability suffered or incurred by the Company or any member of the Acquired Group resulting from or by reference to, amongst other things, any event on or before the Completion Date as a result of the Acquisition. On this basis, we believe that the financial impact of the exclusion of the financial information of Chutian Era and Hongbo on the Group after Completion is limited.

Adjusted net asset value

In light of the information provided in the valuation report prepared LCH, which is set out in Appendix V to the Circular, the Board is of the view that the audited net asset values ("NAVs") attributable to the owners of the parent of Tianranju and Tianhe as at 31st May, 2012 shall be adjusted for the purpose of providing NAV figures to the shareholders of Tianranju and Tianhe when considering the consideration of the Acquisition. Details of the adjustments with reference to note 8 to the pro forma financial information of the Enlarged Group as illustrated in Appendix III to the Circular are as follows:

	Tianranju Group	**Tianhe Group**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Audited NAVs of Tianranju Group and Tianhe Group as at 31st May, 2012	156,657	270,624	427,281
Capital injection by the Vendor into Tianhe	–	99,933	99,933
Estimated fair value adjustment on properties under development, investment properties and land use rights	438,132	54,474	492,606
Deferred tax liabilities recognised in respect of fair value adjustment	(109,533)	(13,619)	(123,152)
Adjusted NAVs of Tianranju Group and Tianhe Group as at 31st May, 2012	485,256	411,412	896,668
Non-controlling interests in NAVs of Tianranju Group and Tianhe Group	(288,594)	(41,786)	(330,380)
Adjusted NAVs of Tianranju Group and Tianhe Group attributable to the owners of the parent as at 31st May, 2012	196,662	369,626	566,288

Note: RMB has been translated into HK$ in the exchange rate of RMB100 = HK$121.87 for the above illustration

As shown in the table above, the consideration of HK$537 million for the Acquisition represents a discount of approximately 5% to the adjusted NAV of the Acquired Group of approximately HK$566 million.

We understand that the pro forma financial information as extracted from Appendix III to the Circular intends to provide investors with the financial information of the Enlarged Group as if the Acquisition were completed on (i) 1st January, 2011 in respect of the unaudited pro forma statement of comprehensive income and statement of cash flow of the Enlarged Group; and (ii) 31st December, 2011 in respect of the unaudited pro forma statement of financial position of the Enlarged Group. Such pro forma statement also sets out the basis on which the Company determined the consideration of the Acquisition. The pro forma balance sheet in this case is prepared based on the latest published balance sheet of the Group as at 31st December, 2011 and the latest audited accounts of the Target Group as at 31st May, 2012 as the latest audited financial information of the Target Group was only made up to 31st May, 2012. Accordingly, the fair values of the Group I to Group IV properties set out in Appendix V to the Circular as at 31st May, 2012 are consistently used in preparing the pro forma financial information. However, a note has been added to the pro forma financial information of the Enlarged Group to illustrate the financial impact of the Acquisition on the Enlarged Group should the estimated fair value adjustments on properties under development, investment properties and land use right of the Acquired Group be determined with reference to the valuation report issued by LCH as at 31st August, 2012 as disclosed in Appendix V to the Circular. Please refer to the Letter from the Board in the Circular and the paragraphs headed "Financial impact of the Acquisition" below for further details.

With regard to the valuation approach adopted by the LCH in arriving at the fair values of the Group I to IV properties, details of which are set out in the paragraphs headed "Valuation of the properties of the Acquired Group" below, and the pro forma adjusted NAV of Tianranju Group and Tianhe Group attributable to the owners of the parent, the approximately 5% discount of the Consideration to the adjusted NAV and the comparable analyses on the Issue Price and the Conversion Price set out above, we are of the view that the Consideration is fair and reasonable.

Valuation of the properties of the Acquired Group

We have discussed with LCH the basis of the approach to the valuation of Group I, II, III and IV properties.

We understand that, as disclosed in the property valuation report, for property number 1 in Group I, LCH has adopted the Sales Comparison Approach or Market Approach which takes into account the sales, listing or offerings of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

As for the valuation of property numbers 2 and 3 in Group II which are under development, LCH has assumed that these properties will be developed and completed in accordance with the Acquired Group's latest development plans reviewed by it. In arriving at its valuation, LCH has valued the land use rights of these properties by using the Sales

Comparison Approach with reference to comparable sales transactions in the locality and also have taken into account the costs incurred for construction in progress items up to the date of valuation.

In relation to the valuation of a parcel of land in Yaoji Town of Wuhan (the property numbered 4 in Group III) and International Building of Wuhan (the property numbered 5 in Group IV) which account for approximately 5% and 95% respectively of the total reported investment value of Group III and Group IV properties, LCH has attributed no commercial value to the properties as the transferability of these properties is subject to approvals from the relevant government authorities or payment of additional land premium, details of which are disclosed in the section "Background information of the Acquired Group – Tianranju" above and the Letter from the Board in the Circular.

For accounting reporting purpose, LCH has reported the investment values of the Group III and Group IV properties after taking into account, amongst other things, prevailing market rentals of these properties and investment returns of comparable properties. According to the legal opinion prepared by the Company's PRC legal advisers, Haiwen & Partners, we note that upon approval from the local regulatory authorities in respect of the transfer of the titles of these properties, these properties can be transferred free of encumbrances in the market. Accordingly, the investment values of Group III and Group IV properties have been taken into account in arriving at the adjusted NAV of approximately HK$566.3 million of the Enlarged Group referred to in the paragraphs headed "Adjusted net asset value" above. The Company has confirmed to us that it currently does not foresee any legal impediment for the Acquired Group to comply with the procedures and requirements in respect of the transfer of the titles of the Group III and Group IV properties. Having said that, the Company does not have such intention at this stage and will continue to hold the properties for long term investment purposes. In particular, International Building of Wuhan is a commercial building located in the central business area of Wuhan with a high occupancy rate and providing an immediate stable income stream for the Group upon Completion to complement the existing business. Upon Completion, the Company intends to retain International Building of Wuhan for rental purpose.

As disclosed in the Letter from the Board in the Circular, despite the current transfer restriction on the land use right of International Building of Wuhan and the land at Huangpo District, the Directors (including the independent non-executive Directors) are of the view that the acquisition of the two properties by the Group is fair and reasonable and in the interest of the Company and its Shareholders as a whole after taking into account (i) the Group intends to hold the interests in the two properties on a long term basis and has no intention to transfer the ownership. Therefore, the transfer restriction will not have any material adverse impact on the business of the Enlarged Group; (ii) it is expected that International Building of Wuhan shall provide an immediate stable income stream for the Group upon completion of the Acquisition; (iii) although no market value has been assigned, the two properties were valued at a total investment value of RMB169 million as at 31st August, 2012 by LCH based on the valuation report in Appendix V to the Circular; and (iv) provided that there is not any change in the planned use of the land and all the relevant procedures have been properly complied with, the Directors do not foresee any material obstacles in obtaining the necessary approvals in case the Enlarged Group plans to transfer the ownership.

In addition to the above reasons, we have taken into account the facts that (i) our review of the PRC legal opinion on the properties interests owned by the Acquired Group and discussions with Haiwen & Partners and the management of the Company reveal that there is no material legal impediment to compliance with the procedures for transfer of the titles of the Group III and IV properties; (ii) the revenue from the sale of properties by the Acquired Group and stable rental income stream from International Building of Wuhan upon Completion are expected to provide the Company with diversified income source; (iii) the PKU Resource – Li Cheng Project and the Honglianhu Project are expected to be self-financed after 2014 and provide an opportunity for the Company to tap into the PRC property market; and (iv) the Acquisition does not require any immediate cash outlay, together with other principal reasons and benefits of the Acquisition set out in this letter, before arriving at our view on the fairness and reasonableness of the Acquisition and the Consideration despite the current restriction on the land use right of International Building of Wuhan and the land at Huangpo District.

We note that that International Building of Wuhan is accounted for as "investment properties" in the audited accounts of Hubei Tianranju for the three years ended 31st December, 2011 and the five months ended 31st May, 2012 with reference to the valuation of such properties by LCH.

The Group III property is in turn accounted for as prepaid land lease payments with a net book value of approximately RMB8.8 million as at 31st May, 2012 in the accountants' report of Tianranju as set out in Appendix II(B) to the Circular. In preparing the unaudited pro forma financial information in Appendix III to the Circular, adjustment has been made to reflect the fair value of the Group III property as at 31st May, 2012 of RMB9.0 million, the investment value appraised by LCH as at 31st May, 2012.

As a result, the total non-current assets as shown in the audited accounts of Tianranju comprised (i) the investment value of RMB159.5 million of International Building of Wuhan as at 31st May, 2012 as appraised by LCH and (ii) the net book value of Group III property of RMB8.8 million (which is only RMB0.2 million lower than the valuation of RMB9.0 million as at 31st May, 2012 as appraised by LCH) which we understand was based on the fair value of Group III property at the time of acquisition of Hubei Tianranju by Tianranju in March, 2011.

Further, as disclosed on page IV-14 in the Circular concerning the additional financial information of the Acquired Group, as at 31st December, 2011, International Building of Wuhan with carrying amount of approximately RMB160 million was pledged to secure approximately RMB150 million bank loans granted to subsidiaries of Peking Founder.

On the basis of the above reasons, we are of the view that while the Group III and Group IV properties are valued on non-market basis by LCH, they carry significant values for accounting reporting, long term investment and other commercial purposes. Hence, we consider that the valuation of the Group III and Group IV properties should be included in the adjusted NAV of the Enlarged Group and the valuation approaches adopted by LCH are reasonable in establishing the values of the relevant properties of the Acquired Group.

As disclosed in the Letter from the Board in the Circular, Phase II development of the PKU Resource – Li Cheng Project shall comprise two pieces of land and Kunshan Hi-Tech will consider the timing of acquiring the land based on the actual progress of Phase I development and will by then negotiate with relevant authorities including the local bureau of land and resources for the land premium required. Upon completion of the Acquisition, the Group (including Kunshan Hi-Tech) will closely monitor the property market of Kunshan city and prepare for the bidding of these two pieces of land for Phase II development of the project. Due to the uncertain nature of Phase II development, when determining the consideration for the Acquisition, no value has been assigned to Phase II development. Neither does the valuation report in Appendix V contain any properties or lands in relation to Phase II development.

Details of the valuation approach, methodology and assumptions regarding the Acquired Group's properties are set out in the property valuation report in Appendix V to the Circular.

As disclosed in the Letter from the Board, all the requisite approvals for the PKU Resource – Li Cheng Project and the Honglianhu Project have been obtained in accordance with the progress of the development and we understand from the Company that there is no legal impediment to obtaining the outstanding approvals prior to completion of these projects.

Reasons for and benefits of the Acquisition and the Subscription

We refer to the paragraphs headed "Reasons for the Acquisition and the Subscription" in the Letter from the Board and summarise the reasons for and benefits of the Acquisition and the Subscription below:

(1) in relation to the Group's principal business of distribution of information products in Hong Kong and the PRC, the Group has recorded a loss attributable to owners of the parent of approximately HK$8.4 million for the year ended 31st December, 2011 compared to profit attributable to owners of the parent of approximately HK$15.8 million for the year ended 31st December, 2010. It continued to make a loss attributable to owners of the parent of approximately HK$34.6 million for the six months ended 30th June, 2012 compared to a loss of approximately HK$1.8 million for the same period in 2011. Due to the loss-making results of the Group and the intense competition of the Group's distribution business, the Group has been looking for opportunity to diversify its existing business into a new line of business with growth potential;

(2) despite the risk factors relating to the Acquisition as well as in the PRC property sector as discussed in the Letter from the Board in the Circular, the Board is optimistic about the expansion into the new PRC property business engaged by the Acquired Group and will implement mitigating actions for the relevant risk factors as disclosed in the paragraphs headed "Risk factors" in the Letter from the Board in the Circular. The Acquisition is expected to provide an opportunity for the Group to tap into the PRC property market and to generate diversified income and additional cashflow, which in turn is in line with the Group's medium to long

term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance Shareholders' value as disclosed in the 2011 annual report of the Company;

(3) despite the minor correction in the PRC property market in 2011 as a result of the austerity measures imposed by the PRC Government, the Directors consider that while such correction resulted in a slowdown in the property market in the short term, it also helped to curb investing and speculative activities in the PRC property market which should be beneficial to the market in the long run;

(4) the Directors consider that the recent rate cut announced by the PBoC and other monetary loosening policies in the PRC are likely to continue and expect the PRC property price to stabilise in the second half of 2012. This should in turn enhance affordability of more genuine home purchasers, who are the target customers of the PKU Resource – Li Cheng Project and the Honglianhu Project;

(5) given the PRC's continued economic growth, the resultant increase in disposable income per capita and urbanization, the Directors are optimistic towards the property market in China in the medium to long term. The Directors also consider the Company, being a listed company on the Stock Exchange, can serve as a better fund raising platform for Tianranju and Tianhe, which should partially alleviate the burden of Tianranju and Tianhe to raise funds themselves in the PRC;

(6) as illustrated in the unaudited pro forma financial information of the Enlarged Group in Appendix III to the Circular, using the fair value on properties under development, investment properties and land use right determined with reference to the valuation as at 31st May, 2012 prepared by LCH, as a result of the Acquisition, the unaudited pro forma net asset value attributable to owners of the parent of the Group as at 31st December, 2011 will be increased from approximately HK$339.2 million to approximately HK$923.9 million. Instead of a comprehensive loss of approximately HK$9.2 million, the Group will record unaudited pro forma comprehensive income attributable to owners of the parent of approximately HK$284.4 million (out of which HK$291.4 million was recognized as one-off gain from bargain purchase and is not recurring in nature);

(7) International Building of Wuhan is expected to provide an immediate stable income stream for the Group upon Completion to complement the existing business. Upon Completion, the Company intends to retain International Building of Wuhan for rental purpose. The income may not be significant to the Group at the moment, but nonetheless it provides steady cashflow to the Group. The Directors are optimistic towards the future income growth from International Building of Wuhan, having considered the potential economic growth of Wuhan and Hubei province. It is also considered that the Acquired Group's satisfactory experience in managing International Building of Wuhan should bring synergies and complimentary benefits to the Group upon Completion and the Master Lease Agreement in relation to the management of Founder International Building as explained in the section "Master Lease Agreement" below;

(8) in view of the quality and location of each of the PKU Resource – Li Cheng Project and the Honglianhu Project, the Directors consider that the Acquisition is a strategic move for the Group for future sustainable and steady development and these projects will generate long term investment return for the Group;

(9) the properties owned by the Acquired Group include both residential properties and commercial offices and therefore the Acquisition enables the Group to generate more diversified income not only by selling residential properties but also by renting commercial offices;

(10) although the Acquired Group is currently loss making, the PKU Resource – Li Cheng Project has commenced pre-sale in March, 2012 and has been generating cash inflow to Kunshan Hi-Tech. The Honglianhu Project is expected to start pre-sale in October, 2013. It is expected that upon Completion, pre-sale of both projects should enable the Acquired Group to generate positive cashflow to the Group;

(11) the total expected capital commitment of RMB680 million for Tianranju and Tianhe for the two years ending 31st December, 2014 is expected to be funded by the Group's internal resources, bank borrowings and proceeds from the pre-sale and sale of properties. The Group is currently negotiating with various banks and other financial institutions for possible funding facilities but no definite agreement has been reached. Nonetheless, on top of the Entrusted Loan, the Group has received confirmation from the PKU Resource that it will procure necessary capital for the development of the PKU Resource – Li Cheng Project and the Honglianhu Project in the future of up to RMB680 million in the two years ending 31st December, 2014, in the case where the Group is not able to obtain the required financing from the financial institutions in the PRC. It is expected that Tianranju and Tianhe should be able to self-finance their respective projects after 31st December, 2014 without the financial assistance from PKU Resource. The Group will carefully assess the then market condition, the PRC Government's policies towards PRC property markets as well as the availability of funding before deciding to proceed with the projects; and

(12) three Directors namely Mr Zhang Zhao Dong, Mr Chen Geng and Mr Xia Yang Jun have years of experience in property development and management in the PRC. Mr Zhang Zhao Dong and Mr Xia Yang Jun have held positions as directors and senior management of PKU Resource and have been engaged in the management of PKU Resource's property businesses. Mr Chen Geng has held position as general manager of Peking University Science Park Co., Ltd. and has been responsible for overseeing its property development and project management businesses. The Directors therefore consider that they have personnel among themselves that possess the relevant experience to engage in property development and property management business in the PRC.

Having considered the above reasons and benefits of the Acquisition as well as the risk factors relating to the Acquisition and the PRC property sector (including relevant mitigating actions which we consider will facilitate the implementation of business plans of the Group), we are of the view that the Acquisition should allow the Group to diversify its business into the PRC property market and enhance the Group's overall performance. We further concur that the Subscription provides additional working capital for, amongst other things, financing the business development of the property projects of the Enlarged Group immediately after Completion and allows the Group to save interest cost which would otherwise be incurred in the case of additional bank borrowings. We therefore consider that the Acquisition, together with the issue of the Subscription Convertible Bonds, is on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Currently, the Company has no intention to make any change in its board composition. The Company intends to maintain its existing business and employment of its employees, while it will continue to seek opportunities to diversify to new businesses with an aim to achieve sustainable growth.

Financial impact of the Acquisition

The following summarises the financial impact of the Acquisition on the Group as if the Acquisition had been completed on (i) 1st January, 2011 in respect of the unaudited pro forma consolidated statement of comprehensive income and statement of cash flows of the Enlarged Group; and (ii) 31st December, 2011 in respect of the unaudited pro forma consolidated statement of financial position of the Enlarged Group.

Effect on net asset value

The net asset value of the Group as at 31st December, 2011 was HK$339.2 million.

As illustrated in the Letter from the Board in the Circular and the unaudited pro forma financial information of the Enlarged Group in Appendix III to the Circular using the fair value on properties under development, investment properties and land use right determined with reference to the valuation as at 31st May, 2012 prepared by LCH, as a result of the Acquisition, (i) the unaudited pro forma total assets of the Group as at 31st December, 2011 will be increased by approximately HK$1,683 million to approximately HK$3,604 million; (ii) the unaudited pro forma total liabilities of the Group as at 31st December, 2011 will be increased by approximately HK$768 million to approximately HK$2,350 million; and (iii) the unaudited pro forma net asset value attributable to owners of the parent of the Group as at 31st December, 2011 will be increased from approximately HK$339.2 million to approximately HK$923.9 million.

As disclosed in note 12 to the pro forma financial information of the Enlarged Group set out in Appendix III of the Circular, for illustrative purpose, should the estimated fair value adjustment on properties under development, investment properties and land use right be determined with reference to the valuation report issued by LCH as at 31st August, 2012 in Appendix V to the Circular, as a result of the Acquisition, (i) the unaudited pro forma total assets of the Enlarged Group as at 31st December, 2011 would be approximately HK$3,629 million; (ii) the unaudited pro forma total liabilities of the Enlarged Group as at 31st December, 2011 would be approximately HK$2,360 million; and (iii) the unaudited pro forma net assets attributable to owners of the parent of the Enlarged Group as at 31st December, 2011 would be approximately HK$924.4 million.

Effect on earnings

The loss attributable to owners of the parent of the Group for the year ended 31st December, 2011 of the Group was HK$9.2 million. According to the pro forma financial information in Appendix III to the Circular, for the year ended 31st December, 2011, the Group will record unaudited pro forma comprehensive income attributable to owners of the parent of approximately HK$284.4 million as a result of the Acquisition. Out of the unaudited pro forma comprehensive income of HK$284.4 million, a total of approximately HK$243.7 million was attributable to the one-off gain from bargain purchase of Tianhe Property and Hubei Tianranju by Tianhe and Tianranju, respectively, whereas approximately HK$47.7 million was attributable to the one-off gain from bargain purchase of the Acquired Group by the Group as a result of the Acquisition. Such gain from bargain purchase is not recurring in nature and will not have any continuous effect on the Enlarged Group.

As disclosed in note 12 to the pro forma financial information of the Enlarged Group set out in Appendix III to the Circular, for illustrative purpose, should the estimated fair value adjustment on properties under development, investment properties and land use right be determined with reference to the valuation report issued by LCH as at 31st August, 2012 in Appendix V to the Circular, as a result of the Acquisition, the unaudited pro forma comprehensive income attributable to owners of the parent of the Enlarged Group for the year ended 31st December, 2011 would be approximately HK$284.4 million.

Effect on gearing and working capital

The Group's gearing ratio on the basis of interest-bearing bank borrowings as a percentage of total shareholders' equity was approximately 1.67 as at 31st December, 2011. According to the pro forma financial information in Appendix III to the Circular, the interest-bearing bank borrowings, and total shareholders' equity would have been HK$566.9 million and HK$1,254.3 million respectively as at 31st December, 2011. Consequently, the unaudited pro forma gearing ratio of the Enlarged Group would be reduced to approximately 0.45 as at 31st December, 2011.

Moreover, the Group's cash and cash equivalents stood at HK$449.2 million as at 31st December, 2011. According to the pro forma financial information, the cash and cash equivalents of the Enlarged Group would be increased to HK$559.7 million. As confirmed by the Company, since the Acquisition does not involve any cash consideration, the Acquisition is not expected to lead to any material change in the Enlarged Group's working capital position.

Please refer to Appendix III to the Circular for further information about the unaudited pro forma financial information of the Enlarged Group.

Effect of the Acquisition on the shareholding of the Independent Shareholders

As at the Latest Practicable Date, except for the outstanding 42,056,200 share options granted under the Share Option Scheme, the Company has no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares. The following table sets out the shareholding structure of the

Company (i) immediately after the issue of the Considerable Shares (assuming that there will be no change in the issued share capital of the Company other than the issue of the Shares pursuant to the exercise of option granted under the Share Option Scheme from the Latest Practicable Date up to the Completion Date); and (ii) after the issue of the Consideration Shares and upon full exercise of the conversion rights attaching to the Convertible Bonds (assuming that there will be no change in the issued share capital of the Company, other than the issue of the Consideration Shares and the Shares pursuant to the exercise of options granted under the Share Option Scheme, from the Latest Practicable Date up to the exercise in full of the conversion rights attaching to the Convertible Bonds):

			Immediately after the issue of the Consideration Shares and before the conversion of the Convertible Bonds				**After the issue of the Consideration Shares and upon full exercise of the conversion rights attaching to the Convertible Bonds**			
	As at the Latest Practicable Date		**Assuming none of the outstanding share options granted under the Share Option Scheme will be exercised**		**Assuming all outstanding share options granted under the Share Option Scheme will be exercised**		**Assuming none of the outstanding share options granted under the Share Option Scheme will be exercised**		**Assuming all outstanding share options granted under the Share Option Scheme will be exercised**	
	No. of Shares	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**	**No. of Shares**	**%**
The Vendor and parties acting in concert with it *(Note 4)*	363,265,000	32.84	891,171,976	54.54	891,171,976	53.17	1,756,288,254	70.28	1,756,288,254	69.12
Directors										
Zhang Zhao Dong *(Note 1)*	3,956,000	0.36%	3,956,000	0.24%	14,470,050	0.86%	3,956,000	0.16%	14,470,050	0.57%
Zheng Fu Shuang *(Note 2)*	200,019,000	18.08%	200,019,000	12.24%	200,019,000	11.93%	200,019,000	8.00%	200,019,000	7.87%
Chen Geng *(Note 3)*	–	–	–	–	10,514,050	0.63%	–	–	10,514,050	0.41%
Xia Yang Jun *(Note 3)*	–	–	–	–	10,514,050	0.63%	–	–	10,514,050	0.41%
Xie Ke Hai *(Note 3)*	–	–	–	–	10,514,050	0.63%	–	–	10,514,050	0.41%
Sub-total	203,975,000	18.44%	203,975,000	12.48%	246,031,200	14.68%	203,975,000	8.16%	246,031,200	9.67%
Other non-public Shareholders										
Cheung Shuen Lung *(Note 5)*	36,890,100	3.34%	36,890,100	2.26%	36,890,100	2.20%	36,890,100	1.47%	36,890,100	1.45%
F2 Consultant Limited *(Note 6)*	60,671,600	5.49%	60,671,600	3.71%	60,671,600	3.62%	60,671,600	2.43%	60,671,600	2.39%
Sub-total	97,561,700	8.83%	97,561,700	5.97%	97,561,700	5.82%	97,561,700	3.90%	97,561,700	3.84%
Public Shareholders	441,260,340	39.89%	441,260,340	27.01%	441,260,340	26.33%	441,260,340	17.66%	441,260,340	17.37%
Total	1,106,062,040	100%	1,633,969,016	100%	1,676,025,216	100%	2,499,085,294	100%	2,541,141,494	100%

Notes:

(1) Zhang Zhao Dong is interested in 3,956,000 Shares and the share options to subscribe for 10,514,050 Shares.

(2) Zheng Fu Shuang directly holds these Shares.

(3) Each of Chen Geng, Xia Yang Jun and Xie Ke Hai is interested in the share options to subscribe for 10,514,050 Shares.

(4) The Bondholder shall not convert the Convertible Bonds which will cause the Company to be unable to meet the public float requirements as required under Rule 8.08 of the Listing Rules.

(5) Cheung Shuen Lung is a director of a subsidiary of the Company.

(6) F2 Consultant Limited holds the Shares as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC", a wholly-owned subsidiary of the Company) who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries. Li Yong Hui and Ying Yu Ling are the directors of FDC.

Shareholders and potential investors should note that as a result of the Acquisition and the Subscription, the shareholdings of public Shareholders will be diluted from 39.89% to 17.37% upon issue of the Consideration Shares and the Conversion Shares upon conversion of the Convertible Bonds, assuming full exercise of the conversion rights attaching to the Convertible Bonds and all of the outstanding share options granted under the Share Option Scheme be exercised. However, as mentioned above, the Bondholder shall not convert the Convertible Bonds in the event that such conversion will lead to non-compliance with the public float requirements as required under Rule 8.08 of the Listing Rules and the dilution will be from 39.89% to 25% consequently.

Taking into account (i) the reasons for and benefits of the Acquisition and the Subscription; and (ii) the respective terms of the S&P and Subscription Agreement and the Convertible Bonds being fair and reasonable, we consider that the aforementioned levels of dilution to the shareholding interests as a result of the Acquisition and Subscription are acceptable as far as the Independent Shareholders are concerned.

The Whitewash Waiver

As at the Latest Practicable Date, the Vendor owns approximately 32.84% shareholding in the Company. After the issue of the Consideration Shares to the Vendor, the Vendor and parties acting in concert with it will be interested in a total of 891,171,976 Shares, representing approximately 54.54% of the enlarged issued share capital of the Company (assuming no further Shares will be allotted and issued prior to the issue of the Consideration Shares). The Vendor will then have an obligation to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by the Vendor and parties acting in concert with it pursuant to Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive.

As a result, an application has been made by the Vendor to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will also be subject to, amongst others, the approval by the Independent Shareholders taken by way of a poll at the SGM to waive the general offer obligation on the part of the Vendor and parties acting in concert with it which will be triggered as a result of the issue of the Consideration Shares. The Vendor, parties acting in concert with it or those who are interested in or involved in the Acquisition, the Whitewash Waiver and the transactions contemplated thereunder will abstain from voting in respect of the resolution approving the Acquisition, the Whitewash Waiver and the transactions contemplated thereunder at the SGM.

After the Consideration Shares are issued to the Vendor, the Vendor will hold more than 50% of the voting rights of the Company and thereafter the Vendor may increase its holding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

As disclosed in the Letter from the Board in the Circular, the Vendor has confirmed that (a) it and, or parties acting in concert with it have not acquired voting rights attaching to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company; (b) there have been no disqualifying transactions as stipulated under paragraph 3 of Schedule VI to the Takeovers Code; and (c) there have been no dealings in the Shares by them, within the six months period prior to the date of the Announcement and up to and including the Latest Practicable Date.

As at the Latest Practicable Date, save for the Convertible Bonds and the outstanding 42,056,200 share options granted under the Share Option Scheme, the Company has no outstanding derivatives, options, warrants, conversion rights or other similar rights which are convertible or exchangeable into Shares or affect the Shares of the Company.

In view of the reasons for and the benefits of the Acquisition and the Subscription to the Group and the terms of the Acquisition, including the allotment and issue of the Consideration Shares and the Conversion Shares upon conversion pursuant to the terms and conditions of the Convertible Bonds, being fair and reasonable so far as the Independent Shareholders are concerned, we consider that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Loan Agreement and the Entrusted Loan Agreement

Principal terms of the Loan Agreement and the Entrusted Loan Agreement

On 6th May, 2012, Kunshan Hi-Tech and PKU Resource entered into the Loan Agreement, the principal terms of which are set out below:

Loan Agreement

Lender:	PKU Resource, which is principally engaged in property development, real estate activities, trading and education investment
Borrower:	Kunshan Hi-Tech
Loan Amount:	RMB250,000,000
Term:	one year from the date when the subject loan is drawn
Interest:	at the interest rate at 12.5% per annum and to be paid semi-annually
Security provided:	charge over the Land Use Rights to the entity designated by PKU Resource
Repayment:	the whole loan shall be repaid at the end of the term

Entrusted Loan Agreement

On 5th July, 2012, Founder Finance entered into the Entrusted Loan Agreement with Kunshan Hi-Tech to give effect to the Loan Agreement. The principal terms of the Entrusted Loan Agreement are substantially the same as the Loan Agreement except that the Lender is Founder Finance instead of PKU Resource.

Background to, reasons for and benefits of the Loan Agreement and the Entrusted Loan Agreement

As disclosed in the Letter from the Board in the Circular, in view of recent stringent PRC banking policies in releasing loans to property companies, it is very difficult for Kunshan Hi-Tech to apply for new loans from banks. In this regard, we have discussed with the management of the Vendor who confirmed that Kunshan Hi-Tech has approached banks in the PRC to explore the possibility of borrowing loans from them to no avail.

As Kunshan Hi-Tech needs capital to develop the PKU Resource – Li Cheng Project in Kunshan, the Entrusted Loan can effectively reduce the working capital pressure on Kunshan Hi-Tech at commercially reasonable rate, which is in turn beneficial to the long term development of Kunshan Hi-Tech. Although the Entrusted Loan has a term of one year only, since the Entrusted Loan is provided by PKU Resource, being the associate of the ultimate controlling shareholder of the Company, it is more likely that the Entrusted Loan will be extended as opposed to loans provided by independent third parties. However, as at the Latest Practicable Date, no agreement has been reached between the Group and PKU Resource to extend the Entrusted Loan. Should there be any extension of the Entrusted Loan subsequently, the Company will take steps to comply with the requirements under the Listing Rules.

We have confirmed with the Company that the lending of the Entrusted Loan by PKU Resource to Kunshan Hi-Tech via Founder Finance, the designated licencsed financial institution within Peking Founder Group, on a short-term basis and normal and commercial terms will allow Kunshan Hi-Tech to meet its capital requirements in the near term on one hand and Peking Founder Group to better utilise and allocate its financial resources on the other hand.

The terms of the Loan Agreement and the Entrusted Loan Agreement were negotiated on an arm's length basis between all parties thereto and were determined on normal commercial terms with reference to prevailing market rates and the interest rates of similar entrusted loans provided to other group companies. The interest rate of 12.5% of the Entrusted Loan was determined based on PKU Resource's external cost of funding including interest of the debt financing and arrangement fees paid by PKU Resources in procuring the Entrusted Loan. It is referenced to the interest rates of entrusted loan facilities granted to other group companies. An analysis of the terms of comparable entrusted loans is set out in the table and paragraphs headed "Comparable entrusted loan transactions" below.

As confirmed by the Directors, Kunshan Hi-tech has not received any better terms offered by independent third parties than the terms stipulated under the Loan Agreement and Entrusted Loan Agreement.

As the passing by the Independent Shareholders of all necessary resolutions at the SGM approving the Loan Agreement and Entrusted Loan Agreement is one of the conditions precedent of the Acquisition which cannot be waived, in the event that the Loan Agreement and the Entrusted Loan Agreement are not approved by the Independent Shareholders, the Acquisition will be lapsed and the Loan Agreement and the Entrusted Loan Agreement will no longer constitute continuing connected transaction of the Company.

Comparable entrusted loan transactions

In order to assess if the terms of the Loan Agreement and the Entrusted Loan Agreement are fair and reasonable, we have identified the following 17 comparable cases involving the provision of entrusted loans denominated in RMB announced during the period from 13th November, 2011 to 12th November, 2012. As the transactions identified for the last 6 months are predominantly conducted by China Kingstone Mining Holdings Limited and China Chengtong Development Group Limited, we extended the review period to the last 12 months to enhance the diversity and representativeness of the sample base.

List of comparable entrusted loan transactions in the last 12 months

Date of Announcement	Company	Stock Code	Principal amount	Interest rate	Term	Security
			RMB millions	*%*	*Years*	
2nd November, 2012	China Power International Development Limited	2380	300	6.15%	3.00	Y
31st October, 2012	China Chengtong Development Group Limited	217	70	12.00%	0.50	Y
12th July, 2012	CIAM Group Limited	378	28	21.00%	1.50	Y
22nd June, 2012	China Kingstone Mining Holdings Limited	1380	220	12.43%	0.58	N
22nd June, 2012	China Kingstone Mining Holdings Limited	1380	20	12.43%	0.58	N
22nd June, 2012	China Kingstone Mining Holdings Limited	1380	70	30.86%	0.58	N
22nd June, 2012	China Kingstone Mining Holdings Limited	1380	35	7.22%	1.00	Y
22nd June, 2012	China Kingstone Mining Holdings Limited	1380	45	7.22%	1.00	Y
10th May, 2012	China Chengtong Development Group Limited	217	200	18.50%	1.00	Y
23rd April, 2012	China Chengtong Development Group Limited	217	200	16.00%	1.00	Y
23rd April, 2012	China Chengtong Development Group Limited	217	70	12.00%	0.50	Y
1st April, 2012	China Chengtong Development Group Limited	217	40	15.00%	1.00	Y
16th February, 2012	AUPU Group Holding Company Limited	477	27	10.00%	2.00	Not disclosed
11th January, 2012	China Sanjiang Fine Chemicals Company Limited	2198	150	12.00%	0.92	Y
15th December, 2011	AviChina Industry & Technology Company Limited	2357	50	6.56%	1.00	Not disclosed
8th December, 2011	China Chengtong Development Group Limited	217	100	12.00%	1.00	Y *(Note 2)*
18th November, 2011	Paul Y. Engineering Group Limited	577	25	PBoC	0.25	N
Max				*30.86%*	*3.00*	
Min				*6.15%*	*0.25*	
Median				*12.00%*	*1.00*	
Average				*13.21%*	*1.02*	
6th September, 2012	The Entrusted Loan Agreement	618	250	12.50%	1.00	Y

Notes:

(1) PBoC refers to the benchmark interest rate set by the People's Bank of China

(2) The entrusted loan arrangement was eventually terminated as the borrower was unable to complete the registration of the charge over a piece of land.

Source: www.hkexnew.hk

As shown in the table above, the interest rates of the other comparable entrusted loans range from 6.15% to 30.86% and the interest rate of the Entrusted Loan is within such range. It is also lower than the average interest rate of 13.21% of the other comparable entrusted loans and taking into account the external cost of borrowing of PKU Resource of 12.5%, the interest rate of the Entrusted Loan is considered to be a normal commercial term.

As to the loan term of the comparable entrusted loans, we note that the median term is one year and the average term is 1.02 year. Accordingly, the loan term of the Entrusted Loan of one year is comparable to the other entrusted loans set out in the table above. Of the 17 comparable entrusted loans, five of them were lent to borrowers in the property sectors, which is indicative that entrusted loans are not an unusual means of financing in the PRC property sector. Accordingly, we are therefore of the view that the terms of the Loan Agreement and the Entrusted Loan Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole in light of the terms of comparable entrusted loans available in the market.

Listing Rules Implications

Upon Completion, Kunshan Hi-Tech will become an indirect non wholly-owned subsidiary of the Company. Further, PKU Resource is a fellow subsidiary of Peking Founder, whereas Founder Finance is a subsidiary of Peking Founder. As Peking Founder is the parent company of the Vendor, the controlling Shareholder of the Company, both PKU Resource and Founder Finance are therefore connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, upon Completion, the Loan Agreement and the Entrusted Loan Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under the Loan Agreement and the Entrusted Loan Agreement exceeds 5% and the consideration for the above transactions exceed HK$10,000,000, the Loan Agreement and the Entrusted Loan Agreement will constitute non-exempt continuing connected transactions for the Company upon Completion and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. PKU Resource, Founder Finance, their respective associates and those who are involved in or interested in the Loan Agreement and the Entrusted Loan Agreement will abstain from voting at the SGM in respect of the resolutions approving the Loan Agreement and the Entrusted Loan Agreement.

The Master Lease Agreement

Principal terms of the Master Lease Agreement

On 28th August, 2012, the Company as the lessor and Peking Founder as the lessee entered into the Master Lease Agreement, the principal terms of which are set out in the Letter from the Board in the Circular. Pursuant to the Master Lease Agreement, the Company agrees to procure one of its subsidiaries to lease certain commercial premises at Founder International Building to Peking Founder Group subject to the approval by the Independent Shareholders. Peking Founder shall arrange the members of Peking Founder

Group to enter into separate lease agreements with the Group. The commencement date of the individual leases shall be specified in each individual lease agreement and the end date of all the individual leases shall not be later than 31st December, 2014.

It is a condition precedent to the Master Lease Agreement that the Group is granted the right to manage Founder International Building by the owner of Founder International Building, Beijing Xinaote. Accordingly, on 28th August, 2012, the Company and Beijing Xinaote entered into a memorandum of understanding whereby it was agreed that after the transactions contemplated under the Master Lease Agreement have been approved by the Independent Shareholders, Beijing Xinaote and a subsidiary designated by the Company shall enter into a formal agreement pursuant to which the Group shall pay to Beijing Xinaote the sums of RMB22 million (equivalent to approximately HK$26.85 million) (annualised amount, the actual amount payable for the year ending 31st December, 2012 will be adjusted on a pro-rata basis based on the final effective date of the agreement), RMB22.5 million (equivalent to approximately HK$27.46 million) and RMB23 million (equivalent to approximately HK$28.07 million) (subject to any possible adjustment as may be agreed by the parties in case there is change in market condition) for the years ended 31st December, 2012, 2013 and 2014 respectively in consideration that the Group will be granted the right to manage Founder International Building and shall receive all profits (including but not limited to the rental income received from the tenants) derived from Founder International Building. The amounts payable to Beijing Xinaote under the memorandum of understanding was determined on the basis of commercial negotiations between the Group and Beijing Xinaote after considering the Group's relationship with Peking Founder being the largest lessee of Founder International Building, the historical average daily rental per square meter of the rentable gross floor area and the expected rise in annual rental income of Founder International Building from 2012 to 2014 as agreed between the Group and Beijing Xinaote.

The Directors have confirmed that except that PKU Resource has 18% equity interest in Beijing Xinaote, each of Beijing Xinaote and its ultimate beneficial owners is a third party independent of the Company and its connected persons.

Upon completion of the Master Lease Agreement, approximately 50.4% of the total 22,000 square meters rentable gross floor area of Founder International Building will be leased to Peking Founder Group and the remaining 49.6% will be leased to independent third parties from the date specified in the individual lease agreement to the end date not later than 31st December, 2014. The rental to Peking Founder Group is referenced to the prevailing market rate and a discount to such market rate is given to Peking Founder Group by Beijing Xinaote as Peking Founder Group leased over half of the premise and the lease terms are generally longer than 2 years.

The Master Lease Agreement is not conditional upon Completion, whereas Completion is not conditional upon the approval of the Master Lease Agreement by the Independent Shareholders.

Background to, reasons for and benefits of the Master Lease Agreement

The existing owner of Founder International Building, Beijing Xinaote, considers that the Group possesses the commercial resources and managerial experience and skills conducive to the development of the property management business of Founder International

Building in future. The memorandum of understanding was therefore entered into between the Company and Beijing Xinaote with a view to maximising the potential rental growth and occupancy rate of Founder International Building and enhancing the operational efficiency in the management of Founder International Building.

The Acquired Group currently owns International Building of Wuhan, an A-grade commercial office building located in the central business area of Wuhan, via Hubei Tianranju, as to approximately 77% of the gross floor area of the building. With an occupancy rate of around 99.2% for the year ended 31st December, 2011, International Building of Wuhan is expected provide an immediate stable income stream for the Group upon Completion to complement the existing business. In addition, we understand that it is the intention of the Group that Beijing Tianranju, a wholly owned subsidiary of Hubei Tianranju established in June 2012, will be responsible for managing both International Building of Wuhan and Founder International Building upon Completion as the management of the Company considers that the satisfactory operating track record of International Building of Wuhan should bring synergies and economies of scale to the Group. As the Group is headquartered in Beijing and it maintains satisfactory business relationships with members of Peking Founder Group and other potential tenants of Founder International Building, the Company considers that the proposed arrangements to operate the property management businesses of International Building of Wuhan and Founder International Building under the same platform will enable it to achieve better integration and allocation of resources and coordination between the Group and its business partners including members of the Peking Founder Group.

Annual caps on rental fee

Based on the amount of rental fee set out under the Master Lease Agreement, the proposed annual aggregate maximum amounts of fee to be received by the Group for the three financial years ending 31st December, 2014 (the "Annual Rental Caps") are estimated to be RMB20 million equivalent to approximately HK$24.4 million) (annualised amount, the actual annual cap for the year ending 31st December, 2012 will be adjusted on a pro-rata basis based on the final effective date of the Master Lease Agreement), RMB27 million (equivalent to approximately HK$33.0 million) and RMB34 million (equivalent to approximately HK$41.5 million) respectively which are determined with reference to the historical and current market unit rental, historical occupancy rate, tenure of existing tenancy agreements and the expected increase in unit rental and occupancy rate.

Pursuant to our discussions with the management of the Company and our review of the information provided to us by the Company including tenancy agreements signed between Beijing Xinaote and existing tenants of Founder International Building, we note that the Annual Rental Caps are determined with reference to:

(1) the prevailing market rentals of Founder International Building payable by its tenants including members of Peking Founder Group to Beijing Xinaote;

(2) the historical discounts of approximately 20 to 25% given by Beijing Xinaote to members of Peking Founder Group to the market rentals paid by other tenants of Founder International Building since 2006, which will continue to be given to members of the Peking Founder Group by the Group after the Master Lease Agreement becoming effective;

(3) the historical average occupancy rate of approximately 43% by members of Peking Founder Group as measured by the total gross floor area occupied by members of Peking Founder Group divided by the rentable gross floor area of Founder International Building;

(4) the estimated gross floor area to be occupied by members of Peking Founder Group in the three years ending 31st December, 2014, which is expected to be no less than the gross floor area occupied by them prior to the effective date of the Master Lease Agreement, indicating that a stable stream of rental income will continue to be generated from members of Peking Founder Group and further justifying the discounts to market rentals that will continue to be given to them; and

(5) an estimated bi-annual increment in the office rental of Founder International Building from 2012 to 2014 as agreed between the Group and members of Peking Founder Group and an expected increase of 2,000 square meters rentable gross floor area of which 400 square meters are to be leased to members of Peking Founder Group from the year ending 31st December, 2012 and 1,600 square meters are to be leased to them from the year ending 31st December, 2013.

In arriving at the office rentals to be paid by members of Peking Founder Group to the Group during the term of the Master Lease Agreement and hence the Annual Rental Caps, the Company has also taken into account the fact that Founder International Building is located in the Zhongguancun area in Haidian District of Beijing which is well known as a technology district and therefore the target tenants of Founder International Building are mainly technology companies. As “Founder” is a renowned technology related brand in the PRC, the Directors are confident that the leasing of certain commercial premises of Founder International Building to members of Peking Founder Group (a majority of them are technology related companies) can effectively enhance the goodwill of Founder International Building and increase the overall occupancy rate by attracting other high quality technology companies. The occupancy rate for Founder International Building was approximately 93.6% for the five months ended 31st May, 2012. The Directors believe that the transactions contemplated under the Master Lease Agreement will enable the Group to earn stable rental income by continuing to lease office spaces of Founder International Building to members of Peking Founder Group. At the same time, the Company will evaluate whether there is a need to renovate the Founder International Building, to engage in more promotional activities with the aim to promote the image of Founder International Building so as to attract higher quality tenants and for rental appreciation.

With regard to (i) the payments of RMB22 million (annualized amount, the actual amount payable for the year ended 31st December, 2012 will be adjusted based on the final effective date of the agreement), RMB22.5 million and RMB23 million by the Group to

Beijing Xinaote for the three years ended 31st December, 2014 respectively in consideration for the right to manage Founder International Building and receive all profits arising therefrom; (2) the fact that Founder International Building has been generating stable rental income from members of Peking Founder Group who will continue to be tenants of Founder International Building under terms comparable to those enjoyed by them under existing tenancy agreements with Beijing Xinaote; and (3) the basis of calculation of the Annual Rental Caps and the reasons for entering into the Master Lease Agreement set out above, we consider that the proposed arrangements under the Master Lease Agreement are commercially viable and the Annual Rental Caps are fair and reasonable, on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

Listing Rules Implications

As at the Latest Practicable Date, the Company is owned as to approximately 32.84% of the issued Shares by the Vendor, which is a subsidiary of Peking Founder. Therefore, Peking Founder is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Master Lease Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under the Master Lease Agreement exceeds 5% and the consideration for the above transactions is expected to exceed HK$10,000,000, the transactions contemplated under the Master Lease Agreement constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Peking Founder, its associates and those who are involved in or interested in the transactions contemplated under the Master Lease Agreement will abstain from voting at the SGM in respect of the resolutions approving the Master Lease Agreement.

RECOMMENDATION

In reaching our opinion, we have considered the principal factors and reasons set out in this letter.

For the year ended 31st December 2011, in relation to the Group's principal business of distribution of information technology products, the Group registered a loss of approximately HK$8.4 million which increased further to HK$34.6 million for the six months ended 30th June, 2012. As disclosed in the paragraph headed "Prospects" in Appendix I to the Circular in relation to the financial review for the year ended 31st December, 2011, the Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objectives to enhance shareholders' value. The Group will also continue to look for alliance with other international information products suppliers and investment opportunities. The Acquisition provides an opportunity for the Group to diversify into the PRC property sector at a time when the Group's distribution business is generating losses and the PRC property market is showing signs of recovery.

Although the PKU Resource – Li Cheng Project in Kunshan and the Honglianhu Project in Ezhou are still under development as at the Latest Practicable Date, the PKU Resource – Li Cheng Project has begun to generate cashflow from presale of properties in relation to Phase I development. For the three years ended 31st December, 2011, International Building of Wuhan has enjoyed satisfactory occupancy rates and stable rental income under the management of Hubei Tianranju. Upon completion of the Acquisition and the PKU Resource – Li Cheng Project and the Honglianhu Project, we believe that the Group will have a better capital raising platform to expand into the new property business engaged by the Acquired Group with a view to generating diversified income and additional cashflow.

We have reviewed the terms of the consideration for the Acquisition and the terms of the Convertible Bonds. The Group has no immediate cash outlays in financing the Acquisitions and on the totality of, amongst other things, our analyses of the Comparable Transactions and the Comparable Convertibles, the financial effects of the Acquisition on the Enlarged Group and the dilutive effects of the Acquisition on the shareholdings of the Company, we consider that the terms of the Acquisition and the Subscription, including the issue of the Convertible Bonds, the allotment and issue of the Consideration Shares and the Conversion Shares upon conversion pursuant to the terms and conditions of the Convertible Bonds, and the Whitewash Waiver, are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

In addition, based on the principal factors and reasons set out above in this letter, we consider that the continuing connected transactions contemplated under the Loan Agreement and Entrusted Loan Agreement and the Master Lease Agreement are commercially justifiable in the context of the Group's sustainable development of property management and property development businesses alongside its distribution business going forward. Accordingly, we consider that the terms of the Loan Agreement, Entrusted Loan Agreement and the Master Lease Agreement are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

In the circumstances, we consider that the Proposed Transactions are on normal commercial terms and advise the Independent Board Committee to recommend that the Independent Shareholders vote in favour of all the ordinary resolutions to be proposed at the SGM to approve the Proposed Transactions.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited

Michael Fok	**Keith Ng**
Director	*Director*

1. FINANCIAL SUMMARY

The following information is extracted from the audited consolidated financial statements of the Group for the three years ended 31 December 2009, 2010 and 2011, and the condensed consolidated financial statements of the Group for the six months ended 30 June 2012:

	Year ended 31 December			Six months ended 30 June
	2011	**2010**	**2009**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(Unaudited)
REVENUE	5,400,140	4,649,269	3,812,755	1,274,779
Cost of sales	(5,136,292)	(4,447,101)	(3,635,616)	(1,208,091)
Gross profit	263,848	202,168	177,139	66,688
Other income and gains	28,092	12,127	9,262	5,675
Selling and distribution costs	(155,702)	(110,624)	(106,882)	(64,029)
Administrative expenses	(57,223)	(43,166)	(61,035)	(23,326)
Other operating income/(expenses), net	(2,357)	(9,370)	5,402	567
Finance costs	(77,740)	(36,631)	(1,986)	(19,854)
Share of profits and losses of associates	(4,528)	2,157	12,853	(171)
PROFIT/(LOSS) BEFORE TAX	(5,610)	16,661	34,753	(34,450)
Income tax expense	(2,801)	(898)	(1,428)	(177)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	(8,411)	15,763	33,325	(34,627)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic	HK(0.76) cents	HK1.43 cents	HK3.01 cents	HK(3.13) cents
Diluted	HK(0.76) cents	HK1.42 cents	HK3.01 cents	HK(3.13) cents

Assets and Liabilities

	As at 31 December			As at 30 June
	2011	**2010**	**2009**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)
Total Assets	1,921,680	2,130,027	1,450,716	1,283,718
Total Liabilities	1,582,469	1,781,905	1,130,186	983,191
Net Assets	339,211	348,122	320,530	300,527
Total Equity	339,211	348,122	320,530	300,527

Notes:

1. The audited consolidated financial statements of the Group for the three years ended 31 December 2009, 2010 and 2011 were audited by Ernst & Young, Certified Public Accountants. No qualified opinion had been issued by Ernst & Young in respect of the aforementioned audited consolidated financial statements of the Group.

2. There were no extraordinary or exceptional items due to size, nature or incidence for the last three years ended 31 December 2011 and the six months ended 30 June 2012.

3. No dividend was paid or proposed by the Company during each of the three years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, nor has any dividend been proposed by the Company since 31 December 2011.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2010

The following information is extracted from the audited consolidated financial statements of the Group as set out in the annual report of the Company for the year ended 31 December 2010. In this section, reference to the page number is referred to the page number of the Company's 2010 annual report.

Consolidated Income Statement
Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	4,649,269	3,812,755
Cost of sales		(4,447,101)	(3,635,616)
Gross profit		202,168	177,139
Other income and gains	5	12,127	9,262
Selling and distribution costs		(110,624)	(106,882)
Administrative expenses		(76,079)	(61,035)
Other operating income/(expenses), net		(9,370)	5,402
Finance costs	7	(3,718)	(1,986)
Share of profits and losses of associates		2,157	12,853
PROFIT BEFORE TAX	6	16,661	34,753
Income tax expense	10	(898)	(1,428)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	11	15,763	33,325
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		HK1.43 cents	HK3.01 cents
Diluted		HK1.42 cents	HK3.01 cents

Consolidated Statement of Comprehensive Income
Year ended 31 December 2010

	2010	2009
	HK$'000	*HK$'000*
PROFIT FOR THE YEAR	15,763	33,325
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	11,829	2,668
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	11,829	2,668
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	27,592	35,993
Attributable to:		
Owners of the parent	27,592	35,993

Consolidated Statement of Financial Position
31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	6,913	5,093
Goodwill	14	2,892	2,892
Investments in associates	16	40,073	42,044
Total non-current assets		49,878	50,029
CURRENT ASSETS			
Inventories	17	544,925	171,456
Trade and bills receivables	18	666,076	439,274
Prepayments, deposits and other receivables		179,281	192,808
Tax recoverable		14	28
Pledged deposits	19	189,021	178,051
Cash and cash equivalents	20	500,832	419,070
Total current assets		2,080,149	1,400,687
CURRENT LIABILITIES			
Trade and bills payables	21	1,447,179	922,705
Other payables and accruals		227,134	180,601
Interest-bearing bank borrowings	22	106,225	26,880
Tax payable		1,367	–
Total current liabilities		1,781,905	1,130,186
NET CURRENT ASSETS		298,244	270,501
Net assets		348,122	320,530
EQUITY			
Issued capital	24	110,606	110,606
Reserves	26(a)	237,516	209,924
Total equity		348,122	320,530

Consolidated Statement of Changes in Equity
Year ended 31 December 2010

	Attributable to owners of the parent						
	Issued capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	General reserve	Accumulated losses	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	110,606	156,019	520,156	26,560	6,694	(535,498)	284,537
Total comprehensive income for the year	–	–	–	2,668	–	33,325	35,993
Transfer to general reserve	–	–	–	–	2,325	(2,325)	–
At 31 December 2009	110,606	156,019	520,156	29,228	9,019	(504,498)	320,530
At 1 January 2010	110,606	156,019	520,156	29,228	9,019	(504,498)	320,530
Total comprehensive income for the year	–	–	–	11,829	–	15,763	27,592
Transfer to general reserve	–	–	–	–	1,486	(1,486)	–
At 31 December 2010	110,606	156,019*	520,156*	41,057*	10,505*	(490,221)*	348,122

* These reserve accounts comprise the consolidated reserves of HK$237,516,000 (2009: HK$209,924,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows
Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		16,661	34,753
Adjustments for:			
Finance costs	7	3,718	1,986
Share of profits and losses of associates		(2,157)	(12,853)
Interest income	5	(10,576)	(7,680)
Depreciation	6	2,234	2,580
Gain on disposal of items of property, plant and equipment	6	(78)	–
		9,802	18,786
Increase in inventories		(373,469)	(16,720)
Increase in trade and bills receivables		(226,802)	(65,935)
Decrease in prepayments, deposits and other receivables		13,527	302,037
Increase/(decrease) in trade and bills payables		524,474	(64,786)
Increase/(decrease) in other payables and accruals		46,533	(13,177)
Exchange differences		(1,749)	627
Cash generated from/(used in) operations		(7,684)	160,832
Interest received		10,576	7,680
Interest paid		(3,718)	(1,966)
Interest element on finance lease rental payments		–	(20)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		(251)	(2,083)
PRC corporate income tax refund		734	–
Net cash flows from/(used in) operating activities		(343)	164,443

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from an associate		4,128	3,680
Purchases of items of property, plant and equipment	13	(3,927)	(1,607)
Proceeds from disposal of items of property, plant and equipment		158	11
Increase in time deposits with original maturity of more than three months when acquired		(380)	(120)
Decrease/(increase) in pledged deposits		(10,970)	21,576
Net cash flows from/(used in) investing activities		(10,991)	23,540
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		305,311	72,440
Repayment of bank loans		(225,966)	(55,747)
Capital element of finance lease rental payments		–	(244)
Net cash flows from financing activities		79,345	16,449
NET INCREASE IN CASH AND CASH EQUIVALENTS		68,011	204,432
Cash and cash equivalents at beginning of year		407,680	201,267
Effect of foreign exchange rate changes, net		13,371	1,981
CASH AND CASH EQUIVALENTS AT END OF YEAR		489,062	407,680
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	489,062	407,680
Non-pledged time deposits	20	11,770	11,390
Cash and cash equivalents as stated in the consolidated statement of financial position		500,832	419,070
Non-pledged time deposits with original maturity of over three months when acquired		(11,770)	(11,390)
Cash and cash equivalents as stated in the consolidated statement of cash flows		489,062	407,680

Statement of Financial Position
31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1	8
Investments in subsidiaries	15	347,033	318,886
Total non-current assets		347,034	318,894
CURRENT ASSETS			
Prepayments, deposits and other receivables		383	415
Cash and cash equivalents	20	2,156	3,050
Total current assets		2,539	3,465
CURRENT LIABILITIES			
Other payables and accruals		1,451	1,829
Total current liabilities		1,451	1,829
NET CURRENT ASSETS		1,088	1,636
Net assets		348,122	320,530
EQUITY			
Issued capital	24	110,606	110,606
Reserves	26(b)	237,516	209,924
Total equity		348,122	320,530

Notes to Financial Statements

31 December 2010

1. CORPORATE INFORMATION

EC-Founder (Holdings) Company Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company are located at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

During the year, the Group was principally engaged in the distribution of information products.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions of First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting the new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and further reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendment	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after

1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating units (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	12½%-33⅓%
Motor vehicles	10%-25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and bills receivables, deposits and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, and interest-bearing bank borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to issuance of the guarantee. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of trade receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. Further details are given in note 18 to the financial statements.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. If the condition was to deteriorate so that the actual provision might be higher than expected, the Group would be required to revise the basis of making the provision and its future results would be affected.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was approximately HK$2,892,000 (2009: HK$2,892,000). More details are given in note 14 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised deductible temporary differences at 31 December 2010 was approximately HK$90,648,000 (2009: HK$85,563,000). Further details are given in note 23 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one operating segment which is the distribution of information products. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

Revenue from external customers based on the location of these customers is analysed as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Hong Kong	180,821	95,057
Mainland China	4,468,448	3,717,698
	4,649,269	3,812,755

The geographical locations of the Group's non-current assets are analysed as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Hong Kong	42,966	44,944
Mainland China	6,912	5,085
	49,878	50,029

The non-current asset information above is based on the location of assets.

Information about a major customer

During the year, there was no external customer accounted for 10% or more of the Group's total revenue (2009: Nil).

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for returns and trade discounts during the year.

An analysis of other income and gains is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Other income		
Bank interest income	6,388	7,052
Other interest income	4,188	628
Government grants *(Note)*	439	973
Others	183	195
	11,198	8,848
Gains		
Others	929	414
	12,127	9,262

Note: Various government grants have been received for the sale of software approved by the PRC tax authority. The government grants have been recognised upon sale of approved software. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
	Notes	**2010**	**2009**
		HK$'000	*HK$'000*
Auditors' remuneration		1,400	1,400
Cost of inventories sold		4,403,231	3,576,975
Depreciation	*13*	2,234	2,580
Impairment/(reversal of impairment) of trade receivables*	*18*	2,795	(6,709)
Reversal of provision of obsolete inventories**		(8,347)	(14,820)
Operating lease rentals in respect of land and buildings		11,872	11,067
Employee benefit expense (including directors' remuneration-note 8):			
Wages and salaries		55,129	57,751
Pension scheme contributions***		7,751	7,442
		62,880	65,193
Foreign exchange differences, net		(432)	316
Gain on disposal of items of property, plant and equipment		(78)	–

* This item is included in "Other operating income/(expenses), net" in the consolidated income statement.

** This item is included in "Cost of sales" in the consolidated income statement.

*** At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Interest on bank loans	3,718	1,966
Interest on finance lease	–	20
	3,718	1,986

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Fees	372	366
Other emoluments:		
Salaries, bonuses and benefits in kind	781	483
Pension scheme contributions	12	12
	793	495
	1,165	861

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Mr Li Fat Chung	126	123
Ms Wong Lam Kit Yee	126	123
Ms Cao Qian	120	120
	372	366

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

(b) Executive directors

2010	Fees	Salaries, bonuses and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr Zhang Zhao Dong	–	–	–	–
Mr Chen Geng	–	781	12	793
Mr Xia Yang Jun	–	–	–	–
Mr Xie Ke Hai	–	–	–	–
Mr Zheng Fu Shuang	–	–	–	–
	–	781	12	793
2009				
Mr Zhang Zhao Dong	–	–	–	–
Mr Chen Geng	–	483	12	495
Mr Xia Yang Jun	–	–	–	–
Mr Xie Ke Hai	–	–	–	–
Mr Zheng Fu Shuang	–	–	–	–
	–	483	12	495

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

None of the five highest paid employees during the year was a director (2009: Nil). Details of the remuneration of the five (2009: five) non-director, highest-paid employees for the year are as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Salaries, bonuses and benefits in kind	3,686	3,849
Pension scheme contributions	116	106
	3,802	3,955

The remuneration of the above non-director, highest-paid employees fell within the following band:

	Number of employees	
	2010	**2009**
Nil to HK$1,000,000	5	5

10. INCOME TAX

	Group 2010	2009
	HK$'000	*HK$'000*
Current-Hong Kong	–	–
Current-PRC		
Charge for the year	1,632	1,428
Overprovision in prior year	(734)	–
Total tax charge for the year	898	1,428

No Hong Kong profits tax has been provided as there were no assessable profits arising in Hong Kong during the year (2009: Nil).

Beijing Founder Century Information Systems Co., Ltd. ("PRC Century"), a wholly-owned subsidiary of the Company, was registered as a new and high technology enterprise, and is subject to PRC corporate income tax at a rate of 15% on its assessable profits.

The share of tax attributable to associates amounting to approximately HK$1,693,000 (2009: HK$3,885,000) is included in "Share of profits and losses of associates" in the consolidated income statement.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group-2010	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	905		15,756		16,661	
Tax at the statutory tax rate	149	16.5	3,939	25.0	4,088	24.5
Lower tax rate for specific provinces or enacted by local authority	–	–	(1,576)	(10.0)	(1,576)	(9.5)
Adjustments in respect of current tax of previous periods	–	–	(734)	(4.7)	(734)	(4.4)
Profits and losses attributable to associates	(356)	(39.3)	–	–	(356)	(2.1)
Income not subject to tax	–	–	(1,319)	(8.4)	(1,319)	(7.9)
Expenses not deductible for tax	90	9.9	588	3.7	678	4.1
Tax losses utilised from previous periods	(98)	(10.8)	–	–	(98)	(0.6)
Tax losses not recognised	215	23.7	–	–	215	1.3
Tax charge at the Group's effective rate	–	–	898	5.6	898	5.4

Group-2009	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	10,093		24,660		34,753	
Tax at the statutory tax rate	1,665	16.5	6,165	25.0	7,830	22.5
Lower tax rate for specific provinces or enacted by local authority	–	–	(2,466)	(10.0)	(2,466)	(7.1)
Profits and losses attributable to associates	(2,121)	(21.0)	–	–	(2,121)	(6.1)
Income not subject to tax	(233)	(2.3)	(3,117)	(12.6)	(3,350)	(9.6)
Expenses not deductible for tax	283	2.8	846	3.4	1,129	3.2
Tax losses utilised from previous periods	(279)	(2.8)	–	–	(279)	(0.8)
Tax losses not recognised	685	6.8	–	–	685	2.0
Tax charge at the Group's effective rate	–	–	1,428	5.8	1,428	4.1

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of approximately HK$27,592,000 (2009: HK$36,598,000) which has been dealt with in the financial statements of the Company (note 26(b)).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of 1,106,062,040 (2009: 1,106,062,040) ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$15,763,000 and 1,109,796,384 ordinary shares, which was the weighted average of 1,106,062,040 ordinary shares in issue during the year and the weighted average of 3,734,344 ordinary shares deemed to have been issued at no consideration on the deemed exercise of all outstanding share options during the year.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2009 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented for that year.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2010			
At 31 December 2009 and at 1 January 2010:			
Cost	13,794	5,823	19,617
Accumulated depreciation	(11,331)	(3,193)	(14,524)
Net carrying amount	2,463	2,630	5,093
At 1 January 2010, net of accumulated depreciation	2,463	2,630	5,093
Additions	2,645	1,282	3,927
Disposals	(9)	(71)	(80)
Depreciation provided during the year	(1,637)	(597)	(2,234)
Exchange realignment	105	102	207
At 31 December 2010, net of accumulated depreciation	3,567	3,346	6,913
At 31 December 2010:			
Cost	15,075	7,116	22,191
Accumulated depreciation	(11,508)	(3,770)	(15,278)
Net carrying amount	3,567	3,346	6,913
31 December 2009			
At 1 January 2009:			
Cost	12,407	5,546	17,953
Accumulated depreciation	(9,436)	(2,500)	(11,936)
Net carrying amount	2,971	3,046	6,017
At 1 January 2009, net of accumulated depreciation	2,971	3,046	6,017
Additions	1,382	225	1,607
Disposals	(11)	–	(11)
Depreciation provided during the year	(1,910)	(670)	(2,580)
Exchange realignment	31	29	60
At 31 December 2009, net of accumulated depreciation	2,463	2,630	5,093
At 31 December 2009:			
Cost	13,794	5,823	19,617
Accumulated depreciation	(11,331)	(3,193)	(14,524)
Net carrying amount	2,463	2,630	5,093

Company

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2010			
At 31 December 2009 and 1 January 2010:			
Cost	224	706	930
Accumulated depreciation	(216)	(706)	(922)
Net carrying amount	8	–	8
At 1 January 2010, net of accumulated depreciation	8	–	8
Depreciation provided during the year	(7)	–	(7)
At 31 December 2010, net of accumulated depreciation	1	–	1
At 31 December 2010:			
Cost	224	706	930
Accumulated depreciation	(223)	(706)	(929)
Net carrying amount	1	–	1
31 December 2009			
At 1 January 2009:			
Cost	224	706	930
Accumulated depreciation	(206)	(530)	(736)
Net carrying amount	18	176	194
At 1 January 2009, net of accumulated depreciation	18	176	194
Depreciation provided during the year	(10)	(176)	(186)
At 31 December 2009, net of accumulated depreciation	8	–	8
At 31 December 2009:			
Cost	224	706	930
Accumulated depreciation	(216)	(706)	(922)
Net carrying amount	8	–	8

14. GOODWILL

	Group *HK$'000*
Cost, net of accumulated amortisation, at 1 January 2009 and 2010, 31 December 2009 and 2010	2,892

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the distribution of information products cash-generating unit for impairment testing. The recoverable amount of the distribution of information products cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by the directors. The discount rate applied to the cash flow projection is 5% (2009: 5%).

Key assumptions were used in the value in use calculation of the distribution of information products cash-generating unit for 31 December 2010 and 31 December 2009. The cash flow projection was based on the expected gross margins during the budget period. Budgeted gross margin was determined based on past performance and management's expectation on market development. The discount rate used is before tax and reflects specific risks relating to the cash-generating unit.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	**2009**
	HK$'000	*HK$'000*
Unlisted shares, at cost	450,071	450,071
Due from subsidiaries	264,921	269,048
	714,992	719,119
Impairment	(367,959)	(400,233)
	347,033	318,886

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued ordinary/ registered share capital**	**Percentage of equity attributable to the Company Direct**	**Indirect**	**Principal activities**
Founder Data Corporation International Limited*	British Virgin Islands/ Hong Kong	Ordinary US$20,000	100	–	Investment holding
PRC Century*#	Mainland China	Registered RMB150,000,000	–	100	Distribution of information products
Founder Century (Hong Kong) Limited	Hong Kong	Ordinary HK$2	–	100	Distribution of information products

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

Registered as a wholly-foreign-owned enterprise under PRC law

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. INVESTMENTS IN ASSOCIATES

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Share of net assets	40,073	42,044

Particulars of the principal associates are as follows:

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
MC.Founder Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Investment holding and distribution of mobile phones and data products
MC.Founder (Distribution) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Distribution of mobile phones and accessories, and provision of repair services
MC.Founder (Technology) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Sale of data products

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The Group's shareholdings in the associates are held through a wholly-owned subsidiary of the Company.

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2010	**2009**
	HK$'000	*HK$'000*
Assets	250,611	217,876
Liabilities	146,095	103,730
Revenue	1,196,398	1,400,641
Profit after tax	5,879	35,029

17. INVENTORIES

	Group 2010 HK$'000	Group 2009 HK$'000
Trading stocks	544,925	171,456

18. TRADE AND BILLS RECEIVABLES

	Group 2010 HK$'000	Group 2009 HK$'000
Trade and bills receivables	693,748	463,294
Impairment	(27,672)	(24,020)
	666,076	439,274

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are settled in accordance with the terms of the respective contracts. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group 2010 HK$'000	Group 2009 HK$'000
Within 6 months	628,701	401,537
7 to 12 months	23,259	15,853
13 to 24 months	14,116	21,884
	666,076	439,274

The movements in provision for impairment of trade receivables are as follows:

	Group 2010 HK$'000	Group 2009 HK$'000
At 1 January	24,020	30,424
Impairment losses recognised/(reversed) (note 6)	2,795	(6,709)
Exchange realignment	857	305
At 31 December	27,672	24,020

Included in the above provision for impairment for trade receivables is a provision for individually impaired trade receivables of HK$8,464,000 (2009: HK$11,879,000) with a carrying amount before provision of HK$8,464,000 (2009: HK$11,879,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the full amount of the receivables is expected to be irrecoverable. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Neither past due nor impaired	363,856	272,016
Past due but not impaired:		
Less than 1 month past due	160,334	59,115
1 to 3 months past due	64,783	54,683
Over 3 months past due	27,298	40,220
	616,271	426,034

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's trade and bills receivables are amounts due from related companies of approximately HK$84,880,000 (2009: HK$75,092,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

19. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group. The pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the pledged deposits approximate to their fair values.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	489,062	407,680	2,156	3,050
Time deposits with original maturity of over three months when acquired	11,770	11,390	–	–
Cash and cash equivalents	500,832	419,070	2,156	3,050

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$436,139,000 (2009: HK$412,517,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control

Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods from seven days to six months depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Within 6 months	1,439,973	909,882
Over 6 months	7,206	12,823
	1,447,179	922,705

The trade payables are non-interest-bearing and are normally settled on terms of 45 to 90 days.

22. INTEREST-BEARING BANK BORROWINGS

Group	**2010**			**2009**		
	Contractual interest rate (%)	**Maturity**	**HK$'000**	**Contractual interest rate (%)**	**Maturity**	**HK$'000**
Bank loans						
– unsecured	2.13-5.62	2011	106,225	4.86	2010	26,880

The unsecured bank loan was repayable within one year, of which approximately HK$55,319,000 (2009: HK$26,880,000) was guaranteed by 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company.

Except for the bank borrowings of approximately HK$55,319,000 which are denominated in RMB (2009: HK$26,880,000), all bank borrowings are denominated in United States dollars.

The carrying amounts of the Group's bank borrowings approximate to their fair values. All borrowings of the Group bear interest at floating interest rates.

* *For identification purpose only*

23. DEFERRED TAX

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2010	**2009**
	HK$'000	*HK$'000*
Tax losses	89,797	85,044
Deductible temporary differences	851	519
	90,648	85,563

The Group has tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$44,774,000 at 31 December 2010 (2009: HK$31,402,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. SHARE CAPITAL

Shares

	Group and Company	
	2010	**2009**
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 (2009: 3,000,000,000) ordinary shares of HK$0.10 each	300,000	300,000
Issued and fully paid:		
1,106,062,040 (2009: 1,106,062,040) ordinary shares of HK$0.10 each	110,606	110,606

25. SHARE OPTION SCHEMES

On 24 May 2002, the Company adopted a share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Listing Rules. The purposes of the 2002 Scheme are to recognise and acknowledge the contributions or potential contributions made or to be made by the participants to the Group, to motivate the participants to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the 2002 Scheme include (i) any part-time or full-time employee or officer of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive, non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; or (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to, any member of the Group. The 2002 Scheme became effective on 24 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 2002 Scheme is an amount equivalent, upon their exercise, to 10% of the total number of shares of the Company in issue as at the date when the 2002 Scheme was approved by the shareholders of the Company in a general meeting. The maximum number of shares issuable under share options to each eligible participant in the 2002 Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options is deemed to have been accepted when the duplicate offer letter comprising the acceptance of the options is signed and upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than ten years from the date of offer of the share options.

The exercise price of the share options is determinable by the directors, but should be the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The share option scheme adopted by the Company on 7 May 2001 (the "2001 Scheme") was terminated on 24 May 2002, however, the options granted under the 2001 Scheme remain in full force and effect.

The following share options were outstanding under the 2001 Scheme and the 2002 Scheme during the year:

	2010		2009	
	Weighted average exercise price	**Number of share options**	**Weighted average exercise price**	**Number of share options**
	HK$ per share	*'000*	*HK$ per share*	*'000*
At 1 January and 31 December	0.378	38,800	0.378	38,800

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2010 and 2009

Number of options	**Exercise price***	**Exercise period**
'000	*HK$ per share*	
4,300	0.450	18.5.2001 to 17.5.2011
24,000	0.381	7.2.2004 to 5.2.2014
10,500	0.340	3.1.2004 to 31.12.2013
38,800		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

2001 Scheme

At the end of the reporting period, the Company had 4,300,000 share options outstanding under the 2001 Scheme. The exercise in full of the remaining share options under the 2001 Scheme would, under the present capital structure of the Company, result in the issue of 4,300,000 additional ordinary shares of the Company and additional share capital of HK$430,000 and share premium of HK$1,505,000 (before issue expenses).

2002 Scheme

At the end of the reporting period, the Company had 34,500,000 share options outstanding under the 2002 Scheme. The exercise in full of the remaining share options under the 2002 Scheme would, under the present capital structure of the Company, result in the issue of 34,500,000 additional ordinary shares of the Company and additional share capital of HK$3,450,000 and share premium of HK$9,264,000 (before issue expenses).

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

The Group's contributed surplus represents the excess of nominal value of the shares of the subsidiaries acquired, over the nominal value of the Company's share issued in exchange therefor.

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries and associates in accordance with their articles of association.

During the year, a PRC subsidiary transferred approximately HK$1,486,000 (2009: HK$2,325,000), which represented 10% of the PRC subsidiary's profit after tax for the year ended 31 December 2010 as determined in accordance with the PRC accounting standards, to the general reserve.

(b) Company

	Share premium account	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2009	156,019	528,980	(511,673)	173,326
Profit for the year	–	–	36,598	36,598
At 31 December 2009	156,019	528,980	(475,075)	209,924
Profit for the year	–	–	27,592	27,592
At 31 December 2010	156,019	528,980	(447,483)	237,516

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus in certain circumstances.

27. CONTINGENT LIABILITIES

(a) Group

Certain associates of the Group, which are owned as to 36.69% by the Group, have tax disputes with Hong Kong Inland Revenue Department (the "IRD"), which had issued notices of additional tax assessments for the years of assessment from 2001/02 to 2004/05 demanding tax payments of approximately HK$I3,820,000. Such associates of the Group had lodged objections against these assessments and are in the process of resolving the tax disputes with the IRD at the date of approval of these financial statements. Should the tax disputes be settled in accordance with the abovementioned additional tax assessments, the share of additional tax of associates by the Group would be approximately HK$5,071,000.

Save as disclosed above, as at 31 December 2010, the Group did not have any significant contingent liabilities (2009: Nil).

(b) Company

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2010	2009
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	98,000	204,680
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	310,913	158,676
	408,913	363,356

As at 31 December 2010, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$50,906,000 (2009: HK$49,572,000).

As at 31 December 2010, the guarantees given to suppliers in connection with credit facilities granted to a subsidiary by the Company were utilised to the extent of approximately HK$242,164,000 (2009: HK$100,822,000).

28. OPERATING LEASE ARRANGEMENTS AS LESSEE

The Group leases certain of its office properties under operating lease arrangements, which are negotiated for terms ranging from one year to five years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within one year	6,800	9,838
In the second to fifth years, inclusive	3,073	8,504
	9,873	18,342

29. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) On 13 November 2008, PRC Century entered into two lease agreements with a subsidiary of Peking Founder to lease office premises in Beijing, the PRC, effective from 1 January 2009 to 31 December 2011.

During the year, rental and management fee expenses of approximately HK$5,021,000 (2009: HK$5,556,000) were paid by PRC Century to a subsidiary of Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

(b) On 15 December 2008, the Company entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of the three years from 1 January 2009 to 31 December 2011. On 27 July 2010, the Group entered into a supplemental agreement with Peking Founder to revise the annual caps for the two years ending 31 December 2011. Further details of the transaction were set out in the announcement of the Company dated 27 July 2010 and circular of the Company dated 10 August 2010.

During the year, information products of approximately HK$137,754,000 (2009: HK$45,974,000) were sold to Peking Founder Group. The directors consider that the sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(c) On 15 December 2008, the Company entered into a master agreement with Founder Holdings Limited ("FHL"), a substantial shareholder of the Company, to govern the sale of information products to FHL and its subsidiaries (collectively "Founder Group") for a term of the three years from 1 January 2009 to 31 December 2011. On 12 June 2009, the Company entered into a supplemental agreement with FHL to revise the annual caps for the three years ending 31 December 2011.

During the year, information products of approximately HK$175,763,000 (2009: HK$255,795,000) were sold to Founder Group. The directors consider that the sales of these products were made according to published prices and conditions similar to those offered to other customers of the Group.

(d) On 15 December 2008, the Company entered into an HP Master Agreement with FHL for the purchase of HP products from Founder Group for a term of the three years from 1 January 2009 to 31 December 2011.

During the year, purchase of HP products and a commission fee in the amounts of approximately HK$409,511,000 (2009: HK$176,954,000) and HK$1,229,000 (2009: HK$527,000) were paid to Founder Group, respectively. The directors consider that the purchase of HP products and commission fee were made in accordance with the HP Master Agreement.

(e) On 19 November 2010, the Company entered into a master agreement with Peking Founder for the purchase of information products from Peking Founder Group for the three years ending 31 December 2012. Further details of the transaction were set out in the announcement of the Company dated 19 November 2010.

During the year, purchases of information products of approximately HK$3,968,000 (2009: Nil) from Peking Founder Group were made by the Group. The directors consider that the purchases of information products from Peking Founder Group were made in accordance with the terms of the master agreement.

(f) On 12 June 2009, the Company entered into an entrusted loan master agreement with Peking Founder (the "Entrusted Loan Master Agreement"), pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ending 31 December 2011.

On 21 August 2009, the Group provided a six-month short term loan of approximately HK$34,000,000 to a subsidiary of Peking Founder and related interest of approximately HK$240,000 was earned by the Group during the year ended 31 December 2010. The entrusted loan and related interest receivable were fully settled by Peking Founder Group during the year ended 31 December 2010.

On 18 January 2010 and 22 January 2010, the Group provided two five-month short term loans of approximately HK$56,850,000 and HK$34,110,000, respectively, to Peking Founder and related interests of approximately HK$926,000 and HK$555,000 were earned by the Group during the year ended 31 December 2010. The entrusted loans and related interest receivables were fully settled by Peking Founder during the year ended 31 December 2010.

On 25 May 2010, the Group provided a six-month short term loan of approximately HK$80,360,000 to a subsidiary of Peking Founder and related interest of approximately HK$2,153,000 was earned by Group during the year ended 31 December 2010. The entrusted loan and related interest receivable were fully settled by Peking Founder Group during the year ended 31 December 2010.

On 6 December 2010, the Group provided a three-month short term loan of approximately HK$82,266,000 to a subsidiary of Peking Founder and related interest of approximately HK$314,000 was earned by Group during the year ended 31 December 2010. The entrusted loan and the related interest receivable were included in prepayments, deposits and other receivables as at 31 December 2010. Subsequent to the end of the reporting period, such entrusted loan and related interest receivables were fully settled by Peking Founder Group.

All above mentioned loans are unsecured and bear interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by The People's Bank of China ("PBOC") plus 10% of such rate. The directors consider that the provision of above entrusted loans to Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

(g) As at 31 December 2010, Peking Founder guaranteed banking facilities given by the PRC banks to the Group of approximately HK$1,565,410,000 (2009: HK$789,613,000) which were utilised to the extent of approximately HK$860,750,000 (2009: HK$721,105,000).

(h) As at 31 December 2010, Peking Founder guaranteed bank loans given by the PRC banks to the Group of approximately HK$55,319,000 (2009: HK$26,880,000).

The related party transactions in respect of items (a) to (f) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(II) Outstanding balances with related parties

(a) The balances due from subsidiaries of FHL included in prepayments, deposits and other receivables as at 31 December 2010 are approximately HK$9,000 (2009: HK$1,115,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(b) The balances due to subsidiaries of FHL included in other payables and accruals as at 31 December 2010 were approximately HK$263,000 (2009: Nil). The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) As at 31 December 2010, except for the entrusted loan and related interest receivables from a subsidiary of Peking Founder disclosed in note 29(I)(f) to the financial statements, other balances due from Peking Founder Group included in prepayments, deposits and other receivables were approximately HK$7,524,000 (2009: Nil). The balances are unsecured, interest-free and have no fixed terms of repayment.

(d) The balances due to Peking Founder Group included in other payables and accruals as at 31 December 2010 were approximately HK$659,000 (2009: HK$590,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(e) Details of the Group's trade receivables from Peking Founder Group and Founder Group as at the end of the reporting period are included in note 18 to the financial statements.

(III) Compensation of key management personnel of the Group

	2010 HK$'000	2009 HK$'000
Short term employee benefits	1,153	849
Post-employment benefits	12	12
Total compensation paid to key management personnel	1,165	861

Further details of directors' emoluments are included in note 8 to the financial statements.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	Group		Company	
	2010	**2009**	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets – Loans and receivables				
Due from subsidiaries	–	–	264,921	269,048
Trade and bills receivables	666,076	439,274	–	–
Financial assets included in prepayments, deposits and other receivables	114,928	64,652	383	415
Pledged deposits	189,021	178,051	–	–
Cash and cash equivalents	500,832	419,070	2,156	3,050
	1,470,857	1,101,047	267,460	272,513
Financial liabilities – Financial liabilities at amortised cost				
Trade and bills payables	1,447,179	922,705	–	–
Financial liabilities included in other payables and accruals	114,267	110,744	1,451	1,829
Interest-bearing bank borrowings	106,225	26,880	–	–
	1,667,671	1,060,329	1,451	1,829

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 27(b) to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade and bills receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 18 to the financial statements.

The Group places its cash deposits with major international banks in Hong Kong and state-owned banks in Mainland China. This investment policy limits the Group's exposure to concentrations of credit risk.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. In addition, banking facilities have been put in place for contingency purpose.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group	**2010** **Within 1 year** *HK$'000*
Trade and bills payables	1,447,179
Financial liabilities included in other payables and accruals	114,267
Interest-bearing bank borrowings	106,225
	1,667,671

	2009 **Within 1 year** *HK$'000*
Trade and bills payables	922,705
Financial liabilities included in other payables and accruals	110,744
Interest-bearing bank borrowings	26,880
	1,060,329

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company	**2010** **Within 1 year** *HK$'000*
Financial liabilities included in other payables and accruals	1,451
Guarantees given to banks in connection with facilities granted to subsidiaries	50,906
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	242,164
	294,521

	2009 **Within 1 year** *HK$'000*
Financial liabilities included in other payables and accruals	1,829
Guarantees given to banks in connection with facilities granted to subsidiaries	49,572
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	100,822
	152,223

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

The Group monitors capital using a debt to equity ratio, which is total interest-bearing bank borrowings divided by total equity. The Group's policy is to maintain a stable gearing ratio. The gearing ratios as at the end of the reporting periods were as follows:

	2010	**2009**
	HK$'000	*HK$'000*
Interest-bearing bank borrowings	106,225	26,880
Total equity	348,122	320,530
Debt to equity ratio	0.31	0.08

32. EVENT AFTER THE REPORTING PERIOD

On 21 March 2011, the Group provided a six-month short term loan of approximately HK$188,000,000 to a subsidiary of Peking Founder under the entrusted loan agreement. The loan is unsecured and bears interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by PBOC plus 15% of such rate.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2011.

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011

The following information is extracted from the audited consolidated financial statements of the Group as set out in the annual report of the Company for the year ended 31 December 2011. In this section, reference to the page number is referred to the page number of the Company's 2011 annual report.

Consolidated Income Statement
Year ended 31 December 2011

	Notes	**2011** *HK$'000*	**2010** *HK$'000* (Restated)
REVENUE	*5*	5,400,140	4,649,269
Cost of sales		(5,136,292)	(4,447,101)
Gross profit		263,848	202,168
Other income and gains	*5*	28,092	12,127
Selling and distribution costs		(155,702)	(110,624)
Administrative expenses		(57,223)	(43,166)
Other operating expenses, net		(2,357)	(9,370)
Finance costs	*7*	(77,740)	(36,631)
Share of profits and losses of associates		(4,528)	2,157
PROFIT/(LOSS) BEFORE TAX	*6*	(5,610)	16,661
Income tax expense	*10*	(2,801)	(898)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	*11*	(8,411)	15,763
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*12*		
Basic		HK(0.76) cents	HK1.43 cents
Diluted		HK(0.76) cents	HK1.42 cents

Consolidated Statement of Comprehensive Income
Year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	(8,411)	15,763
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	(756)	11,829
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT, NET OF TAX	(756)	11,829
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	(9,167)	27,592

Consolidated Statement of Financial Position
31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	9,351	6,913
Goodwill	14	2,892	2,892
Investments in associates	16	34,169	40,073
Total non-current assets		46,412	49,878
CURRENT ASSETS			
Inventories	17	293,528	544,925
Trade and bills receivables	18	705,426	666,076
Prepayments, deposits and other receivables		345,660	179,281
Tax recoverable		288	14
Pledged deposits	19	81,178	189,021
Cash and cash equivalents	20	449,188	500,832
Total current assets		1,875,268	2,080,149
CURRENT LIABILITIES			
Trade and bills payables	21	828,146	1,447,179
Other payables and accruals		180,907	227,134
Interest-bearing bank borrowings	22	566,856	106,225
Tax payable		1,160	1,367
Total current liabilities		1,577,069	1,781,905
NET CURRENT ASSETS		298,199	298,244
TOTAL ASSETS LESS CURRENT LIABILITIES		344,611	348,122
NON-CURRENT LIABILITY			
Long term payable		5,400	–
Net assets		339,211	348,122
EQUITY			
Issued capital	24	110,606	110,606
Reserves	26(a)	228,605	237,516
Total equity		339,211	348,122

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the parent							
		Issued share capital	Share premium account	Employee share-based compensation reserve	Contributed surplus	Exchange fluctuation reserve	General reserve	Accumulated losses	Total equity
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010		110,606	156,019	–	520,156	29,228	9,019	(504,498)	320,530
Total comprehensive income for the year		–	–	–	–	11,829	–	15,763	27,592
Transfer to general reserve		–	–	–	–	–	1,486	(1,486)	–
At 31 December 2010		110,606	156,019*	–	520,156*	41,057*	10,505*	(490,221)*	348,122
At 1 January 2011		110,606	156,019	–	520,156	41,057	10,505	(490,221)	348,122
Total comprehensive loss for the year		–	–	–	–	(756)	–	(8,411)	(9,167)
Equity-settled share option arrangements	25	–	–	256	–	–	–	–	256
Transfer to general reserve		–	–	–	–	–	53	(53)	–
At 31 December 2011		110,606	156,019*	256*	520,156*	40,301*	10,558*	(498,685)*	339,211

* These reserve accounts comprise the consolidated reserves of HK$228,605,000 (2010: HK$237,516,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows
Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:		(5,610)	16,661
Adjustments for:			
Finance costs	7	77,740	36,631
Share of profits and losses of associates		4,528	(2,157)
Interest income	5	(23,050)	(10,576)
Depreciation	6	2,800	2,234
Gain on disposal of items of property, plant and equipment	6	(11)	(78)
(Reversal of impairment)/impairment of trade receivables	6	(1,431)	2,795
Write off of prepayment, deposits and other receivables	6	3,097	4,827
Provision for/(reversal of provision of) obsolete inventories	6	6,118	(8,347)
Equity-settled share option expense	25	256	–
		64,437	41,990
Decrease/(increase) in inventories		245,279	(365,122)
Increase in trade and bills receivables		(37,919)	(229,597)
Decrease in prepayments, deposits and other receivables		35,310	56,580
(Decrease)/increase in trade and bills payables		(619,033)	524,474
(Decrease)/increase in other payables and accruals		(46,227)	46,533
Increase in long term payable		5,400	–
Exchange differences		(16,444)	(1,749)
Cash generated (used in)/from operations		(369,197)	73,109
Interest received		8,337	6,388
Interest paid		(77,740)	(36,631)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid		(3,008)	(251)
Hong Kong profits tax paid		(274)	–
PRC corporate income tax refund		–	734
Net cash flows (used in)/from operating activities		(441,882)	43,349

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
Net cash flows (used in)/from operating activities		(441,882)	43,349
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		9,641	4,574
Dividend received from an associate		1,376	4,128
Purchases of items of property, plant and equipment	*13*	(4,945)	(3,927)
Proceeds from disposal of items of property, plant and equipment		42	158
Increase in time deposits with original maturity of more than three months when acquired		(96,417)	(380)
Advance of entrusted loans to related companies		(559,130)	(253,586)
Repayment of entrusted loans from related companies		359,416	205,320
Decrease/(increase) in pledged deposits		107,843	(10,970)
Net cash flows used in investing activities		(182,174)	(54,683)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		735,259	305,311
Repayment of bank loans		(276,931)	(225,966)
Net cash flows from financing activities		458,328	79,345
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(165,728)	68,011
Cash and cash equivalents at beginning of year		489,062	407,680
Effect of foreign exchange rate changes, net		17,667	13,371
CASH AND CASH EQUIVALENTS AT END OF YEAR		341,001	489,062

	Notes	2011 *HK$'000*	2010 *HK$'000* (Restated)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*20*	338,001	489,062
Non-pledged time deposits	*20*	111,187	11,770
Cash and cash equivalents as stated in the consolidated statement of financial position		449,188	500,832
Non-pledged time deposits with original maturity of over three months when acquired		(108,187)	(11,770)
Cash and cash equivalents as stated in the consolidated statement of cash flows		341,001	489,062

Statement of Financial Position
31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	–	1
Investments in subsidiaries	*15*	342,824	347,033
Total non-current assets		342,824	347,034
CURRENT ASSETS			
Prepayments, deposits and other receivables		396	383
Cash and cash equivalents	*20*	3,820	2,156
Total current assets		4,216	2,539
CURRENT LIABILITIES			
Other payables and accruals		2,429	1,451
Total current liabilities		2,429	1,451
NET CURRENT ASSETS		1,787	1,088
TOTAL ASSETS LESS CURRENT LIABILITIES		344,611	348,122
NON-CURRENT LIABILITY			
Long term payable		5,400	–
Net assets		339,211	348,122
EQUITY			
Issued capital	*24*	110,606	110,606
Reserves	*26(b)*	228,605	237,516
Total equity		339,211	348,122

Notes to Financial Statements

31 December 2011

1. CORPORATE INFORMATION

EC-Founder (Holdings) Company Limited (the "Company") is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company are located at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred as the "Group") were principally engaged in the distribution of information products.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation - Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasis a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 29 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures - Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentations – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. The Group expects to adopt the amendments from 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating units (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) 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).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	12½% – 33⅓%
Motor vehicles	10% – 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and bills receivables, deposits and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other operating expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Share-based payment transactions

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 25 in the financial statement.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of trade receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected. Further details are included in note 18 to the financial statements.

Provision for obsolete inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. If the condition was to deteriorate so that the actual provision might be higher than expected, the Group would be required to revise the basis of making the provision and its future results would be affected.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was approximately HK$2,892,000 (2010: HK$2,892,000). Further details are included in note 14 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total amount of unrecognised deductible temporary differences and unrecognised tax losses at 31 December 2011 was approximately HK$94,823,000 (2010: HK$90,648,000). Further details are contained in note 23 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one operating segment which is the distribution of information products. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

Revenue from external customers based on the location of these customers is analysed as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Hong Kong	71,370	180,821
Mainland China	5,328,770	4,468,448
	5,400,140	4,649,269

The geographical locations of the Group's non-current assets are analysed as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Hong Kong	37,061	42,966
Mainland China	9,351	6,912
	46,412	49,878

The non-current asset information above is based on the location of assets.

Information about a major customer

During the year, there was no external customer accounted for 10% or more of the Group's total revenue (2010: Nil).

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for returns and trade discounts during the year.

An analysis of other income and gains is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Other income		
Bank interest income	8,337	6,388
Other interest income	14,713	4,188
Government grants *(Note)*	–	439
Others	348	183
	23,398	11,198
Gains		
Foreign exchange differences, net	4,117	432
Others	577	497
	4,694	929
	28,092	12,127

Note: Various government grants have been received for the sale of software approved by the PRC tax authority. The government grants have been recognised upon sale of approved software. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

		Group	
		2011	**2010**
	Notes	*HK$'000*	*HK$'000*
Auditors' remuneration		1,480	1,400
Cost of inventories sold		5,109,247	4,403,231
Depreciation	*13*	2,800	2,234
(Reversal of impairment)/impairment of trade receivables*	*18*	(1,431)	2,795
Write off of prepayments, deposits and other receivables*		3,097	4,827
Provision for/(reversal of provision of) obsolete inventories**		6,118	(8,347)
Operating lease rentals in respect of land and buildings		17,947	11,872
Employee benefit expense (including directors' remuneration – *note 8*):			
Wages and salaries		87,934	55,129
Pension scheme contributions***		8,271	7,751
Equity-settled share option expense		256	–
		96,461	62,880
Gains on disposal of items of property, plant and equipment		(11)	(78)

* These items are included in "Other operating expenses, net" in the consolidated income statement.

** This item is included in "Cost of sales" in the consolidated income statement.

*** At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2010: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
		(Restated)
Interest on bank loans	33,896	3,718
Interest on discounted bills	43,844	32,913
	77,740	36,631

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Fees	372	372
Other emoluments:		
Salaries, allowances and benefits in kind	518	613
Performance related bonuses	592	168
Pension scheme contributions	12	12
Equity-settled share option expense	256	–
	1,378	793
	1,750	1,165

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 25 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Mr Li Fat Chung	126	126
Ms Wong Lam Kit Yee	126	126
Ms Cao Qian	120	120
	372	372

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

(b) Executive directors

2011	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Mr Zhang Zhao Dong	–	–	–	64	–	64
Mr Chen Geng	–	518	592	64	12	1,186
Mr Xia Yang Jun	–	–	–	64	–	64
Mr Xie Ke Hai	–	–	–	64	–	64
Mr Zheng Fu Shuang	–	–	–	–	–	–
	–	518	592	256	12	1,378
2010						
Mr Zhang Zhao Dong	–	–	–	–	–	–
Mr Chen Geng	–	613	168	–	12	793
Mr Xia Yang Jun	–	–	–	–	–	–
Mr Xie Ke Hai	–	–	–	–	–	–
Mr Zheng Fu Shuang	–	–	–	–	–	–
	–	613	168	–	12	793

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2010: Nil) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2010: five) non-director, highest-paid employees for the year are as follows:

	Group 2011 HK$'000	2010 HK$'000
Salaries, allowances and benefits in kind	1,918	2,653
Performance related bonuses	1,947	1,033
Pension scheme contributions	70	116
	3,935	3,802

The remuneration of the above non-director, highest-paid employees fell within the following bands:

	Number of employees 2011	2010
Nil to HK$1,000,000	2	5
HK$1,000,001 to HK$1,500,000	2	–
	4	5

10. INCOME TAX

	Group 2011	2010
	HK$'000	*HK$'000*
Current – Hong Kong	–	–
Current – PRC		
Charge for the year	2,801	1,632
Overprovision in prior year	–	(734)
Total tax charge for the year	2,801	898

No Hong Kong profits tax has been provided as there were no assessable profits arising in Hong Kong during the year (2010: Nil).

Under the PRC income tax laws, enterprises are subject to corporate income tax at a rate of 25% during the year ended 31 December 2011.

During the year ended 31 December 2010, Beijing Founder Century Information Systems Co., Ltd. ("PRC Century"), a wholly-owned subsidiary of the Company, was registered as a new and high technology enterprise, and was subject to PRC corporate income tax at a rate of 15% on its assessable profits.

The share of tax attributable to associates amounting to approximately HK$1,282,000 (2010: HK$1,693,000) is included in "Share of profits and losses of associates" in the consolidated income statement.

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2011

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(8,946)		3,336		(5,610)	
Tax at the statutory tax rate	(1,476)	16.5	834	25.0	(642)	11.4
Profits and losses attributable to associates	747	(8.4)	–	–	747	(13.3)
Income not subject to tax	(47)	0.5	(311)	(9.3)	(358)	6.4
Expenses not deductible for tax	166	(1.8)	2,278	68.3	2,444	(43.5)
Tax losses not recognised	610	(6.8)	–	–	610	(10.9)
Tax charge at the Group's effective rate	–	–	2,801	84.0	2,801	(49.9)

Group – 2010

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit before tax	905		15,756		16,661	
Tax at the statutory tax rate	149	16.5	3,939	25.0	4,088	24.5
Lower tax rate for specific provinces or enacted by local authority	–	–	(1,576)	(10.0)	(1,576)	(9.5)
Adjustments in respect of current tax of previous periods	–	–	(734)	(4.7)	(734)	(4.4)
Profits and losses attributable to associates	(356)	(39.3)	–	–	(356)	(2.1)
Income not subject to tax	–	–	(1,319)	(8.4)	(1,319)	(7.9)
Expenses not deductible for tax	90	9.9	588	3.7	678	4.1
Tax losses utilised from previous periods	(98)	(10.8)	–	–	(98)	(0.6)
Tax losses not recognised	215	23.7	–	–	215	1.3
Tax charge at the Group's effective rate	–	–	898	5.6	898	5.4

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit/(loss) attributable to owners of the parent for the year ended 31 December 2011 includes a loss of approximately HK$9,167,000 (2010: a profit of HK$27,592,000) which has been dealt with in the financial statements of the Company (note 26(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of 1,106,062,040 (2010: 1,106,062,040) ordinary shares in issue during the year.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2011 in respect of a dilution as the impact of the options outstanding had an anti-dilutive effect on the basic per share amount presented.

The calculation of diluted earnings per share amount for the year ended 31 December 2010 is based on the profit for the year attributable to ordinary equity holders of the parent of approximately 1,109,796,384 ordinary shares, which was the weighted average of 1,106,062,040 ordinary shares in issue during the year and the weighted average of 3,734,344 ordinary shares deemed to have been issued at no consideration on the deemed exercise of all outstanding share options during that year.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2011			
At 31 December 2010 and 1 January 2011:			
Cost	15,075	7,116	22,191
Accumulated depreciation	(11,508)	(3,770)	(15,278)
Net carrying amount	3,567	3,346	6,913
At 1 January 2011, net of accumulated depreciation	3,567	3,346	6,913
Additions	4,945	–	4,945
Disposals	(31)	–	(31)
Depreciation provided during the year	(1,990)	(810)	(2,800)
Exchange realignment	198	126	324
At 31 December 2011, net of accumulated depreciation	6,689	2,662	9,351
At 31 December 2011:			
Cost	19,574	7,383	26,957
Accumulated depreciation	(12,885)	(4,721)	(17,606)
Net carrying amount	6,689	2,662	9,351
31 December 2010			
At 1 January 2010:			
Cost	13,794	5,823	19,617
Accumulated depreciation	(11,331)	(3,193)	(14,524)
Net carrying amount	2,463	2,630	5,093
At 1 January 2010, net of accumulated depreciation	2,463	2,630	5,093
Additions	2,645	1,282	3,927
Disposals	(9)	(71)	(80)
Depreciation provided during the year	(1,637)	(597)	(2,234)
Exchange realignment	105	102	207
At 31 December 2010, net of accumulated depreciation	3,567	3,346	6,913
At 31 December 2010:			
Cost	15,075	7,116	22,191
Accumulated depreciation	(11,508)	(3,770)	(15,278)
Net carrying amount	3,567	3,346	6,913

Company

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2011			
At 31 December 2010 and 1 January 2011:			
Cost	224	706	930
Accumulated depreciation	(223)	(706)	(929)
Net carrying amount	1	–	1
At 1 January 2011, net of accumulated depreciation	1	–	1
Depreciation provided during the year	(1)	–	(1)
At 31 December 2011, net of accumulated depreciation	–	–	–
At 31 December 2011:			
Cost	224	706	930
Accumulated depreciation	(224)	(706)	(930)
Net carrying amount	–	–	–
31 December 2010			
At 1 January 2010:			
Cost	224	706	930
Accumulated depreciation	(216)	(706)	(922)
Net carrying amount	8	–	8
At 1 January 2010, net of accumulated depreciation	8	–	8
Depreciation provided during the year	(7)	–	(7)
At 31 December 2010, net of accumulated depreciation	1	–	1
At 31 December 2010:			
Cost	224	706	930
Accumulated depreciation	(223)	(706)	(929)
Net carrying amount	1	–	1

14. GOODWILL

	Group
	HK$'000
Cost, net of accumulated amortisation, at 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	2,892

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the distribution of information products cash-generating unit for impairment testing. The recoverable amount of the distribution of information products cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on financial budgets covering a five-year period approved by the directors.

Key assumptions were used in the value in use calculation of the distribution of information products cash-generating unit for 31 December 2011 and 31 December 2010. The cash flow projection was based on the expected gross margins during the budget period. Budgeted gross margin was determined based on past performance and management's expectation on market development. The discount rate used is before tax and reflects specific risks relating to the cash-generating unit.

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	**2010**
	HK$'000	*HK$'000*
Unlisted shares, at cost	450,071	450,071
Due from subsidiaries	263,668	264,921
	713,739	714,992
Impairment *(Note)*	(370,915)	(367,959)
	342,824	347,033

Note: An impairment was recognised for an unlisted investment with a carrying amount of approximately HK$370,915,000 (2010: HK$367,959,000) because the relevant subsidiary had suffered losses for many years.

The amounts due from subsidiaries included in the investments in subsidiaries above are unsecured, interest-free and the Company does not expect these loans to be repaid within the next 12 months. In the opinion of the Company's directors, these loans are considered as quasi-equity loans to the subsidiaries.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Founder Data Corporation International Limited*	British Virgin Islands/ Hong Kong	Ordinary US$20,000	100	–	Investment holding
PRC Century*#	Mainland China	Registered RMB150,000,000	–	100	Distribution of information products
Founder Century (Hong Kong) Limited	Hong Kong	Ordinary HK$2	–	100	Distribution of information products

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

\# Registered as a wholly-foreign-owned enterprise under PRC law

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. INVESTMENTS IN ASSOCIATES

	Group 2011 *HK$'000*	2010 *HK$'000*
Share of net assets	34,169	40,073

Particulars of the principal associates are as follows:

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
MC.Founder Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Investment holding and distribution of mobile phones and data products
MC.Founder (Distribution) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Distribution of mobile phones and accessories, and provision of repair services

Name	Particulars of issued shares held	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
MC.Founder (Technology) Limited*	Ordinary shares of HK$1 each	Hong Kong	36.69	Sale of data products

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The Group's shareholdings in the associates are held through a wholly-owned subsidiary of the Company.

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2011	2010
	HK$'000	*HK$'000*
Assets	215,406	250,611
Liabilities	122,277	146,095
Revenue	1,051,953	1,196,398
(Loss)/profit after tax	(12,341)	5,879

17. INVENTORIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Trading stocks	293,528	544,925

18. TRADE AND BILLS RECEIVABLES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Trade and bills receivables	732,782	693,748
Impairment	(27,356)	(27,672)
	705,426	666,076

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are settled in accordance with the terms of the respective contracts. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Within 6 months	612,476	628,701
7 to 12 months	64,349	23,259
13 to 24 months	28,601	14,116
	705,426	666,076

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
At 1 January	27,672	24,020
Impairment losses recognised/(reversed) *(note 6)*	(1,431)	2,795
Exchange realignment	1,115	857
At 31 December	27,356	27,672

Included in the above provision for impairment for trade receivables is a provision for individually impaired trade receivables of HK$8,392,000 (2010: HK$8,464,000) with a carrying amount before provision of HK$8,392,000 (2010: HK$8,464,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the full amount of the receivables is expected to be irrecoverable.

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Neither past due nor impaired	516,243	363,856
Past due but not impaired:		
Less than 1 month past due	33,620	160,334
1 to 3 months past due	13,523	64,783
Over 3 months past due	88,873	27,298
	652,259	616,271

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of individual customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the Group's trade and bills receivables are amounts due from subsidiaries of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company, of approximately HK$85,591,000 (2010: HK$84,880,000), and a subsidiary of Founder Holdings Limited ("FHL"), a then substantial shareholder of the Company, of approximately HK$1,125,000 (2010: Nil), which are repayable on similar credit terms to those offered to the major customers of the Group.

* *For identification purpose only*

19. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group. The pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the pledged deposits approximate to their fair values.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	338,001	489,062	820	2,156
Time deposits with original maturity of less than three months when acquired	3,000	–	3,000	–
Time deposits with original maturity of over three months when acquired	108,187	11,770	–	–
Cash and cash equivalents	449,188	500,832	3,820	2,156

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK$430,473,000 (2010: HK$436,139,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods from one to six months depending on the immediate cash requirement of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Included in the Group's cash and cash equivalents are time deposits and cash and bank balances of approximately HK$95,843,000 and HK$84,000, respectively, placed with PKU Founder Group Finance Co., Ltd. ("Founder Finance"), a financial institution approved by the People's Bank of China (the "PBOC"). Founder Finance is a subsidiary of Peking Founder. The interest rates for these deposits were the prevailing saving rates offered by the PBOC.

21. TRADE AND BILLS PAYABLES

	Group 2011	Group 2010
	HK$'000	*HK$'000*
Trade payables	484,449	676,288
Bills payable	343,697	770,891
	828,146	1,447,179

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group 2011	Group 2010
	HK$'000	*HK$'000*
Within 6 months	641,016	1,439,973
Over 6 months	187,130	7,206
	828,146	1,447,179

Included in the Group's trade and bills payables are amounts due to a subsidiary of Peking Founder of approximately HK$2,371,000 (2010: HK$993,000), and subsidiaries of FHL of approximately HK$11,373,000 (2010: HK$84,621,000), which are repayable on similar credit terms to those offered by the related companies to their major customers.

The trade payables are non-interest-bearing and are normally settled on terms of 45 to 90 days.

22. INTEREST-BEARING BANK BORROWINGS

Group

	2011			2010		
	Effective interest rate (%)	**Maturity**	**HK$'000**	**Effective interest rate (%)**	**Maturity**	**HK$'000**
Bank loans						
– unsecured	4.86-7.22	2012	566,856	2.13-5.62	2011	106,225

The unsecured bank loan was repayable within one year, of which approximately HK$199,056,000 (2010: HK$55,319,000) was guaranteed by Peking Founder, the remaining balance of approximately HK$367,800,000 (2010: Nil) was jointly guaranteed by Peking Founder and its subsidiary and an independent third party.

Except for the bank borrowings of approximately HK$50,906,000 as at 31 December 2010 which were denominated in United States dollars, all bank borrowings were denominated in RMB.

The carrying amounts of the Group's bank borrowings approximate to their fair values. All borrowings of the Group bear interest at floating interest rates.

23. DEFERRED TAX

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Tax losses	93,494	89,797
Deductible temporary differences	1,329	851
	94,823	90,648

The Group has tax losses arising in Hong Kong that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses and other deductible temporary differences as they have arisen in subsidiaries that have been loss making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$45,255,000 at 31 December 2011 (2010: HK$44,774,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. SHARE CAPITAL

Shares

	Group and Company	
	2011	**2010**
	HK$'000	*HK$'000*
Authorised:		
3,000,000,000 (2010: 3,000,000,000) ordinary shares of HK$0.10 each	300,000	300,000
Issued and fully paid:		
1,106,062,040 (2010: 1,106,062,040) ordinary shares of HK$0.10 each	110,606	110,606

25. SHARE OPTION SCHEMES

On 24 May 2002, the Company adopted a share option scheme (the "2002 Scheme") in compliance with Chapter 17 of the Listing Rules. The purpose of the 2002 Scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the participants to the Group, to motivate the participants to optimise their performance and efficiency for the benefit of the Group, and to maintain or attract business relationships with participants whose contributions are or may be beneficial to the growth of the Group. Eligible participants of the 2002 Scheme include (i) any part-time or full-time employee or officer of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; (ii) any substantial shareholder of the Company; (iii) the chief executive or director (executive, non-executive or independent non-executive) of any member of the Group or of any substantial shareholder of the Company or of any associated company of the Company; and (iv) any supplier, agent, customer, partner or business associate of, or adviser or consultant to any member of the Group. The 2002 Scheme became effective on 24 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the 2002 Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue as at the date when the scheme was approved by the shareholders of the Company in a general meeting. The maximum number of shares issuable under share options to each eligible participant in the 2002 Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options is deemed to have been accepted when the duplicate offer letter comprising the acceptance of the option is signed and upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than ten years from the date of offer of the share options.

The exercise price of the share options is determinable by the directors, but should be the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of offer of the share options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The share option scheme adopted by the Company on 7 May 2001 (the "2001 Scheme") was terminated on 24 May 2002, however, the options granted under the 2001 Scheme remained in full force and effect prior to expiry on 17 May 2011.

The following share options were outstanding under the 2001 Scheme and the 2002 Scheme during the year:

	2011		2010	
	Weighted average exercise price	**Number of share options**	**Weighted average exercise price**	**Number of share options**
	HK$ per share	*'000*	*HK$ per share*	*'000*
At 1 January	0.378	38,800	0.378	38,800
Expired during the year	0.450	(4,300)	–	–
Cancelled during the year	0.369	(34,500)	–	–
Granted during the year	0.281	42,056	–	–
At 31 December	0.281	42,056	0.378	38,800

During the year, the board of directors of the Company resolved to cancel the outstanding options previously granted to certain directors and employees of the Group to subscribe for a total of 34,500,000 shares of the Company at an exercise price of HK$0.381 per share and HK$0.340 per share, respectively, with validity period of 10 years ending 5 February 2014 and 31 December 2013, respectively. The Company paid each grantee HK$1 as a consideration for the cancellation. Further details of the cancellation were set out in the announcement of the Company dated 5 December 2011.

On 5 December 2011, a total of 42,056,200 share options were granted to certain directors of the Company in respect of their services to the Group (the "2011 Options"). The 2011 Options have an exercise price of HK$0.281 per share. The closing price of the Company's share at the date of grant was HK$0.280 per share. None of the 2011 Options was exercised or forfeited during the year.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011

Number of options	**Exercise price**	**Exercise period**
'000	*HK$ per share*	
	(Note 1)	*(Note 2)*
42,056	0.281	05.12.2012 to 04.12.2014

2010

Number of options	**Exercise price**	**Exercise period**
'000	*HK$ per share*	
	(Note 1)	
4,300	0.450	18.05.2001 to 17.05.2011
24,000	0.381	07.02.2004 to 05.02.2014
10,500	0.340	03.01.2004 to 31.12.2013
38,800		

Notes:

1. The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

2. The 2011 Options are exercisable in the following two tranches:

   (i) First 40% of the 2011 Options are exercisable from 5 December 2012 to 4 December 2014; and

   (ii) The remaining of 60% of the 2011 Options are exercisable from 5 December 2013 to 4 December 2014.

The fair value of the share options granted during the year was HK$4,542,000 (HK$0.108 each) of which the Group recognised a share option expense of HK$256,000 during the year ended 31 December 2011.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2011
Dividend yield (%)	0.0
Expected volatility (%)	68.62
Historical volatility (%)	68.62
Risk-free interest rate (%)	0.39
Exercise multiple	1.34
Weighted average share price (HK$ per share)	0.281

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 42,056,200 share options outstanding under the 2002 Scheme. The exercise in full of the remaining share options under the 2002 Scheme would, under the present capital structure of the Company, result in the issue of 42,056,200 additional ordinary shares of the Company and additional share capital of HK$4,206,000 and share premium of HK$7,612,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 42,056,200 share options outstanding under the Scheme, which represented approximately 3.8% of the Company's shares in issue as at that date.

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

The Group's contributed surplus represents the excess of nominal value of the shares of the subsidiaries acquired, over the nominal value of the Company's share issued in exchange therefor.

In accordance with the relevant PRC regulations, each of the Group's PRC subsidiaries and associates is required to transfer not less than 10% of its profit after tax, as determined in accordance with PRC accounting standards and regulations, to the general reserve until such reserve reaches 50% of its registered capital. The quantum of the annual transfer is subject to the approval of the board of directors of the PRC subsidiaries and associates in accordance with their articles of association.

During the year, a PRC subsidiary transferred approximately HK$53,000 (2010: HK$1,486,000), which represented 10% of the PRC subsidiary's profit after tax for the year ended 31 December 2011 as determined in accordance with the PRC accounting standards, to the general reserve.

(b) Company

	Share premium account	Employee share-based compensation reserve	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	156,019	–	528,980	(475,075)	209,924
Profit for the year	–	–	–	27,592	27,592
At 31 December 2010	156,019	–	528,980	(447,483)	237,516
Loss for the year	–	–	–	(9,167)	(9,167)
Equity-settled share option arrangements	–	256	–	–	256
At 31 December 2011	156,019	256	528,980	(456,650)	228,605

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its shareholders out of the contributed surplus in certain circumstances.

27. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2011	2010
	HK$'000	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	98,000	98,000
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	47,481	310,913
	145,481	408,913

As at 31 December 2011, none of the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised (2010: HK$50,906,000).

As at 31 December 2011, the credit facilities granted to a subsidiary subject to guarantees given to suppliers by the Company were utilised to the extent of approximately HK$47,481,000 (2010: HK$242,164,000).

At the end of the reporting period, the Group did not have any significant contingent liabilities.

28. OPERATING LEASE ARRANGEMENTS AS LESSEE

The Group leases certain of its office properties under operating lease arrangements, which are negotiated for terms ranging from one year to five years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	**2010**
	HK$'000	*HK$'000*
Within one year	8,043	6,800
In the second to fifth years, inclusive	5,659	3,073
	13,702	9,873

29. RELATED PARTY TRANSACTIONS

(I) Transactions and commitments with related parties

In addition to the related party transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) On 13 November 2008, PRC century entered into two lease agreements with a subsidiary of Peking Founder to lease office premises in Beijing, the PRC, effective from 1 January 2009 to 31 December 2011.

During the year, rental and management fee expenses of approximately HK$2,093,000 (2010: HK$5,021,000) were paid by the Group to that subsidiary of Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

(b) On 15 December 2008, the Company entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of three years from 1 January 2009 to 31 December 2011.

On 27 July 2010, the Group entered into a supplemental agreement with Peking Founder to revise the annual caps for the two years ended 31 December 2011. On 1 November 2011, the Company entered into a master agreement with Peking Founder for the sale of information products to Peking Founder Group for the three years ending 31 December 2014. Further details of the transaction were set out in the announcement of the Company dated 1 November 2011 and circular of the Company dated 17 November 2011.

During the year, information products of approximately HK$224,199,000 (2010: HK$137,754,000) were sold to Peking Founder Group. The directors consider that the sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(c) On 15 December 2008, the Group entered into a master agreement with FHL to govern the sale of information products to FHL and its subsidiaries (collectively "Founder Group") for a term of three years from 1 January 2009 to 31 December 2011. On 12 June 2009, the Company entered into a supplemental agreement with FHL to revise the annual caps for the three years ended 31 December 2011.

On 29 August 2011, the Company entered into a new master agreement with FHL to govern the sale of information products to Founder Group for a term of three years from 1 January 2011 to 31 December 2013. Further details of the transaction were set out in the announcement of the Company dated 29 August 2011.

During the year, information products of approximately HK$7,431,000 (2010: HK$175,763,000) were sold to Founder Group. The directors consider that the sales of these products were made according to published prices and conditions similar to those offered to other customers of the Group.

(d) On 15 December 2008, the Company entered into an HP Master Agreement with FHL to govern the purchase of HP products from Founder Group for a term of the three years from 1 January 2009 to 31 December 2011.

On 29 August 2011, the Company entered into a New HP Master Agreement with FHL to govern the purchase of HP products from Founder Group for a term of three years from 1 January 2011 to 31 December 2013. Further details of the transaction were set out in the announcement of the Company dated 29 August 2011 and circular of the Company dated 20 September 2011.

During the year, HP products of approximately HK$229,095,000 (2010: HK$409,511,000) were purchased from Founder Group and commission fee of approximately HK$775,000 (2010: HK$1,229,000) were paid to Founder Group. The directors consider that the purchase of HP products and commission fee were made in accordance with the New HP Master Agreement.

(e) On 19 November 2010, the Company entered into a master agreement with Peking Founder for the purchase of information products from Peking Founder Group for the three years ending 31 December 2012.

During the year, purchases of information products of approximately HK$335,000 (2010: HK$3,968,000) from Peking Founder Group were made by the Group. The directors consider that the purchases of information products from Peking Founder Group were made in accordance with the terms of the master agreement.

(f) On 12 June 2009, the Company entered into an entrusted loan master agreement with Peking Founder (the "Entrusted Loan Master Agreement"), pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ended 31 December 2011.

On 1 November 2011, the Company entered into an entrusted loan master agreement with Peking Founder, pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ending 31 December 2014. Further details of the transaction were set out in the announcement of the Company dated 1 November 2011 and circular of the Company dated 17 November 2011.

On 18 January 2010 and 22 January 2010, the Group provided two five-month short term loans of approximately HK$56,850,000 and HK$34,110,000, respectively, to Peking Founder and related interests of approximately HK$926,000 and HK$555,000 were earned by the Group during the year ended 31 December 2010. The entrusted loans and related interest receivables were fully settled by Peking Founder during the year ended 31 December 2010.

On 25 May 2010, the Group provided a six-month short term loan of approximately HK$80,360,000 to a subsidiary of Peking Founder and related interest of approximately HK$2,153,000 was earned by Group during the year ended 31 December 2010. The entrusted loan and related interest receivable were fully settled by that subsidiary of Peking Founder during the year ended 31 December 2010.

On 6 December 2010, the Group provided a three-month short term loan of approximately HK$82,266,000 to a subsidiary of Peking Founder and the related interest of approximately HK$1,386,000 was earned by Group during the year ended 31 December 2011. The loan was unsecured and bore an interest at the prevailing benchmark Renminbi lending rate for loan period of three months offered by the PBOC plus 10% of such rate. The entrusted loan and related interest receivable were fully settled by that subsidiary of Peking Founder during the year ended 31 December 2011.

On 21 March 2011, the Group provided a six-month short term loan of approximately HK$192,800,000 to a subsidiary of Peking Founder and the related interest of approximately HK$5,712,000 was earned by the Group during the year ended 31 December 2011. The loan was unsecured and bore an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15% of such rate. The entrusted loan and related interest receivable were fully settled by that subsidiary of Peking Founder Group during the year ended 31 December 2011.

On 29 March 2011, the Group provided a six-month short term loan of approximately HK$84,350,000 to a subsidiary of Peking Founder and the related interest of approximately HK$2,893,000 was earned by Group during the year ended 31 December 2011. The loan was unsecured and bore an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 10% of such rate. The entrusted loan and related interest receivable were fully settled by that subsidiary of Peking Founder during the year ended 31 December 2011.

On 21 September 2011, the Group provided a six-month short term loan of approximately HK$196,160,000 to a subsidiary of Peking Founder and the related interest of approximately HK$3,329,000 was earned by the Group during the year ended 31 December 2011. The loan is unsecured and bears an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15% of such rate.

On 30 September 2011, the Group provided a six-month short term loan of approximately HK$85,820,000 to a subsidiary of Peking Founder and the related interest of approximately HK$1,393,000 was earned by the Group during the year ended 31 December 2011. The loan is unsecured and bears an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 10% of such rate.

The total entrusted loans of HK$281,980,000 and related interest of HK$5,386,000 receivable from the subsidiaries of Peking Founder remained undue and were included in prepayments, deposits and other receivables in the consolidated statement of financial position as at 31 December 2011. Subsequent to the end of the reporting period, such entrusted loans and related interest receivables were settled by the subsidiaries of Peking Founder. The directors consider that the provision of the entrusted loans to Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

(g) On 13 January 2011, the Company, Founder Finance and Peking Founder entered into a financial services agreement, pursuant to which Founder Finance would provide the Group with (i) deposit service, (ii) loan services; and (iii) miscellaneous financial service subject to the terms and conditions provided therein for the three years ending 31 December 2013. Peking Founder has provided the guarantee to the Company in the financial services agreement. Further details of the transaction were set out in the announcement of the Company dated 13 January 2011 and circular of the Company dated 26 January 2011.

During the year, deposits were placed by the Group with Founder Finance and the related interest of approximately HK$1,472,000 was earned by Group during the year ended 31 December 2011. As at 31 December 2011, deposits of approximately

HK$95,927,000 were placed by the Group with Founder Finance. The interest rate on these deposits offered by Founder Finance were the prevailing rates offered by the PBOC.

(h) As at 31 December 2011, guarantees were given by Peking Founder to banks in connection with banking facilities granted to the Group of approximately HK$1,753,180,000 (2010: HK$1,565,410,000) which were utilised to the extent of approximately HK$551,299,000 (2010: HK$860,750,000).

The related party transactions in respect of items (a) to (g) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(II) Outstanding balances with related parties

(a) As at 31 December 2010, the balances due from subsidiaries of FHL included in prepayments, deposits and other receivables were HK$9,000. The balances were unsecured, interest-free and had no fixed terms of repayment.

(b) The balances due to subsidiaries of FHL included in other payables and accruals as at 31 December 2011 were approximately HK$866,000 (2010: HK$263,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) Except for the entrusted loan and related interest receivables due from a subsidiary of Peking Founder disclosed in note 29(I)(f) to the financial statements, other balances due from Peking Founder Group included in prepayments, deposits and other receivables were approximately HK$11,703,000 (2010: HK$7,524,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(d) The balances due to Peking Founder Group included in other payables and accruals as at 31 December 2011 were approximately HK$1,706,000 (2010: HK$659,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(e) The balance due to Peking Founder Group included in long term payable as at 31 December 2011 was approximately HK$5,400,000 (2010: Nil). The balance is unsecured, interest-free and not repayable within one year.

(f) Details of the Group's trade receivables and trade payables with its related companies as at the end of the reporting period are included in notes 18 and 21 to the financial statements.

(III) Compensation of key management personnel of the Group

	2011	**2010**
	HK$'000	*HK$'000*
Short term employee benefits	1,482	1,153
Equity-settled share option expense	256	–
Post-employment benefits	12	12
Total compensation paid to key management personnel	1,750	1,165

Further details of directors' emoluments are included in note 8 to the financial statements.

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets – Loans and receivables				
Trade and bills receivables	705,426	666,076	–	–
Financial assets included in prepayments, deposits and other receivables	313,425	114,928	396	383
Due from subsidiaries	–	–	263,668	264,921
Pledged deposits	81,178	189,021	–	–
Cash and cash equivalents	449,188	500,832	3,820	2,156
	1,549,217	1,470,857	267,884	267,460
Financial liabilities – Financial liabilities at amortised cost				
Trade and bills payables	828,146	1,447,179	–	–
Financial liabilities included in other payables and accruals	115,652	114,267	2,429	1,451
Interest-bearing bank borrowings	566,856	106,225	–	–
Long term payable	5,400	–	5,400	–
	1,516,054	1,667,671	7,829	1,451

31. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Cash and cash equivalents	449,188	500,832	449,188	500,832
Pledged deposits	81,178	189,021	81,178	189,021
Trade and bills receivables	705,426	666,076	705,426	666,076
Financial assets included in prepayments, deposits and other receivables	313,425	114,928	313,425	114,928
	1,549,217	1,470,857	1,549,217	1,470,857
Financial liabilities				
Trade and bills payables	828,146	1,447,179	828,146	1,447,179
Financial liabilities included in other payables and accruals	115,652	114,267	115,652	114,267
Interest-bearing bank borrowings	566,856	106,225	566,856	106,225
Long term payable	5,400	–	5,400	–
	1,516,054	1,667,671	1,516,054	1,667,671

Company

	Carrying amounts		Fair values	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Cash and cash equivalents	3,820	2,156	3,820	2,156
Due from subsidiaries	263,668	264,921	263,668	264,921
Financial assets included in prepayments, deposits and other receivables	396	383	396	383
	267,884	267,460	267,884	267,460

Company

	Carrying amounts		Fair values	
	2011	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial liability				
Financial liabilities included in other payables and accruals	2,429	1,451	2,429	1,451
Long term payable	5,400	–	5,400	–
	7,829	1,451	7,829	1,451

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The Group and the Company did not have any financial assets and liabilities at fair value as at 31 December 2011 and 2010.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise pledged deposits, cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 27 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade and bills receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 18 to the financial statements.

The Group places its cash deposits with major international banks in Hong Kong, state-owned banks in Mainland China and Founder Finance, a financial institution approved by PBOC. This investment policy limits the Group's exposure to concentrations of credit risk.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. In addition, banking facilities have been put in place for contingency purpose.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

		2011	
	Within 1 year	**Over 1 year**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Trade and bills payables	828,146	–	828,146
Financial liabilities included in other payables and accruals	115,652	–	115,652
Interest-bearing bank borrowings	572,718	–	572,718
Long term payable	–	5,400	5,400
	1,516,516	5,400	1,521,916

	2010 Within 1 year *HK$'000*
Trade and bills payables	1,447,179
Financial liabilities included in other payables and accruals	114,267
Interest-bearing bank borrowings	106,225
	1,667,671

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2011 Within 1 year *HK$'000*
Financial liabilities included in other payables and accruals	2,429
Long term payable	5,400
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	47,481
	55,310

	2010 Within 1 year *HK$'000*
Financial liabilities included in other payables and accruals	1,451
Guarantees given to banks in connection with facilities granted to subsidiaries	50,906
Guarantees given to suppliers in connection with credit facilities granted to a subsidiary	242,164
	294,521

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using a debt to equity ratio, which is total interest-bearing bank borrowings divided by total equity. The debt to equity ratios as at the end of the reporting periods were as follows:

	2011	**2010**
	HK$'000	*HK$'000*
Interest-bearing bank borrowings	566,856	106,225
Total equity	339,211	348,122
Debt to equity ratio	1.67	0.31

33. COMPARATIVE AMOUNTS

(a) During the year, the directors of the Company have reviewed the components of the administrative expenses and considered it is more appropriate to reclassify the interest expenses on discounted bills from the administrative expenses to finance costs. Accordingly, a prior year adjustment has been made to reclassify the interest expenses on discounted bills of approximately HK$32,913,000 to finance costs in the consolidated income statement for the year ended 31 December 2010, to conform with the current year's presentation.

(b) During the year, the directors of the Company have reviewed the presentation of the consolidated statement of cash flows and considered it is more appropriate to reclassify the cash flows in respect of provision of entrusted loans to Peking Founder Group from cash flows from operating activities to cash flows from investing activities. Accordingly, a prior year adjustment has been made to reclassify the advance of entrusted loans to Peking Founder Group of approximately HK$253,586,000, repayment of entrusted loans from Peking Founder Group of approximately HK$205,320,000 and receipt of related interest of approximately HK$4,574,000 for the year ended 31 December 2010 from cash flows from operating activities to cash flows from investing activities, to conform with the current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2012.

4. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE PERIOD ENDED 30 JUNE 2012

The following information is extracted from the unaudited consolidated financial statements of the Group as set out in the interim report of the Company for the six months ended 30 June 2012:

Condensed Consolidated Income Statement
For the six months ended 30 June 2012

		For the six months ended 30 June	
		2012	**2011**
		(Unaudited)	**(Unaudited)**
	Notes	*HK$'000*	*HK$'000*
REVENUE		1,274,779	2,522,773
Cost of sales		(1,208,091)	(2,387,970)
Gross profit		66,688	134,803
Other income and gains	*3*	5,675	10,467
Selling and distribution costs		(64,029)	(67,817)
Administrative expenses		(23,326)	(29,318)
Other operating income, net		567	362
Finance costs	*4*	(19,854)	(41,184)
Share of profits and losses of associates		(171)	(4,526)
PROFIT/(LOSS) BEFORE TAX	*5*	(34,450)	2,787
Income tax expense	*6*	(177)	(4,614)
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		(34,627)	(1,827)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*7*		
Basic		HK(3.13) cents	HK(0.17) cents
Diluted		HK(3.13) cents	HK(0.17) cents

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
LOSS FOR THE PERIOD	(34,627)	(1,827)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	(5,532)	1,667
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT, NET OF TAX	(5,532)	1,667
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	(40,159)	(160)

Condensed Consolidated Statement of Financial Position
30 June 2012

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		9,379	9,351
Goodwill		2,892	2,892
Investments in associates		33,998	34,169
Total non-current assets		46,269	46,412
CURRENT ASSETS			
Inventories		265,275	293,528
Trade and bills receivables	9	510,237	705,426
Prepayments, deposits and other receivables		105,276	345,660
Tax recoverable		1,831	288
Pledged deposits	10	114,422	81,178
Cash and cash equivalents		240,408	449,188
Total current assets		1,237,449	1,875,268
CURRENT LIABILITIES			
Trade and bills payables	11	665,624	828,146
Other payables and accruals		106,867	180,907
Interest-bearing bank borrowings		205,300	566,856
Tax payable		–	1,160
Total current liabilities		977,791	1,577,069
NET CURRENT ASSETS		259,658	298,199
TOTAL ASSETS LESS CURRENT LIABILITIES		305,927	344,611
NON-CURRENT LIABILITY			
Long term payable		5,400	5,400
Net assets		300,527	339,211
EQUITY			
Issued capital		110,606	110,606
Reserves		189,921	228,605
Total equity		300,527	339,211

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to owners of the parent							
	Issued capital	Share premium account	Employee share-based compensation reserve	Contributed surplus	Exchange fluctuation reserve	General reserve	Accumulated losses	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2012	110,606	156,019	256	520,156	40,301	10,558	(498,685)	339,211
Loss for the period	–	–	–	–	–	–	(34,627)	(34,627)
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	–	–	–	–	(5,532)	–	–	(5,532)
Total comprehensive loss for the period	–	–	–	–	(5,532)	–	(34,627)	(40,159)
Equity-settled share option arrangements	–	–	1,475	–	–	–	–	1,475
At 30 June 2012	110,606	156,019*	1,731*	520,156*	34,769*	10,558*	(533,312)*	300,527
At 1 January 2011	110,606	156,019	–	520,156	41,057	10,505	(490,221)	348,122
Loss for the period	–	–	–	–	–	–	(1,827)	(1,827)
Other comprehensive income for the period:								
Exchange differences on translation of foreign operations	–	–	–	–	1,667	–	–	1,667
Total comprehensive income/(loss) for the period	–	–	–	–	1,667	–	(1,827)	(160)
At 30 June 2011	110,606	156,019	–	520,156	42,724	10,505	(492,048)	347,962

* These reserve accounts comprise the consolidated reserves of HK$189,921,000 (31 December 2011: HK$228,605,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(96,844)	(323,454)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	254,203	(216,940)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	(361,597)	418,635
NET DECREASE IN CASH AND CASH EQUIVALENTS	(204,238)	(121,759)
Cash and cash equivalents at beginning of period	341,001	489,062
Effect of foreign exchange rate changes, net	(2,704)	10,095
CASH AND CASH EQUIVALENTS AT END OF PERIOD	134,059	377,398
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	134,059	377,398
Non-pledged time deposits	106,349	12,050
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	240,408	389,448
Non-pledged time deposits with original maturity of over three months when acquired	(106,349)	(12,050)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	134,059	377,398

Notes to Condensed Consolidated Interim Financial Statements

30 June 2012

1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2011, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the above HKFRSs has had no significant impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated interim financial statements.

2. OPERATING SEGMENT INFORMATION

For management purpose, the Group has only one operating segment which is the distribution of information products. Since this is the only operating segment of the Group, no further operating segment analysis thereof is presented.

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Bank interest income	1,757	3,048
Other interest income	3,916	5,858
Others	2	1,561
	5,675	10,467

4. FINANCE COSTS

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Interest on bank loans	12,683	14,268
Interest on discounted bills	7,171	26,916
	19,854	41,184

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation	1,800	1,305
Impairment/(reversal of impairment) of trade receivables	8,267	(704)
Provision for obsolete inventories	8,537	9,893
Write-back of other payables	8,863	–

6. INCOME TAX

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – The People's Republic of China (the "PRC")	177	4,614

No Hong Kong profits tax has been made as there were no assessable profits arising in Hong Kong during the period (six months ended 30 June 2011: Nil).

Under the PRC income tax laws, enterprises are subject to corporate income tax at a rate of 25%.

The share of tax attributable to associates amounting to approximately HK$404,000 (six months ended 30 June 2011: HK$1,031,000) is included in "Share of profits and losses of associates" in the condensed consolidated income statement.

7. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amount for the six months ended 30 June 2012 is based on the loss for the period attributable to ordinary equity holders of the parent of approximately HK$34,627,000 (six months ended 30 June 2011: HK$1,827,000), and the weighted average number of 1,106,062,040 (six months ended 30 June 2011: 1,106,062,040) ordinary shares in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the period ended 30 June 2012 and 30 June 2011 in respect of a dilution as the impact of the options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

8. INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade and bills receivables are settled in accordance with the terms of the respective contracts. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Within 6 months	438,828	612,476
7 to 12 months	37,155	64,349
13 to 24 months	34,254	28,601
	510,237	705,426

Included in the Group's trade and bills receivables are amounts due from subsidiaries of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), a substantial shareholder of the Company, of approximately HK$28,482,000 (31 December 2011: HK$85,591,000), and a subsidiary of Founder Holdings Limited ("FHL"), in which a 32.49% equity interest was held by Peking Founder, of approximately HK$370,000 (31 December 2011: HK$1,125,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

* *For identification purpose only*

10. PLEDGED DEPOSITS

The Group's bank deposits were pledged to banks to secure the banking facilities granted to the Group. The pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the pledged deposits approximate to their fair values.

11. TRADE AND BILLS PAYABLES

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Trade payables	172,334	484,449
Bills payable	493,290	343,697
	665,624	828,146

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Within 6 months	631,734	641,016
Over 6 months	33,890	187,130
	665,624	828,146

Included in the Group's trade and bills payables are amounts due to a subsidiary of Peking Founder of approximately HK$306,000 (31 December 2011: HK$2,371,000), and subsidiaries of FHL of approximately HK$181,000 (31 December 2011: HK$11,373,000), which are repayable on similar credit terms to those offered by the related companies to their major customers.

The trade payables are non-interest-bearing and are normally settled on terms of 45 to 90 days.

12. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the related party transactions and balances disclosed elsewhere in these condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:

(a) On 15 December 2008, the Company entered into a master agreement with Peking Founder to govern the sale of information products to Peking Founder and its subsidiaries (collectively "Peking Founder Group") for a term of three years from 1 January 2009 to 31 December 2011.

On 27 July 2010, the Group entered into a supplemental agreement with Peking Founder to revise the annual caps for the two years ended 31 December 2011. On 1 November 2011, the Company entered into a master agreement with Peking Founder for the sale of information products to Peking Founder Group for the three years ending 31 December 2014.

During the period, information products of approximately HK$31,494,000 (six months ended 30 June 2011: HK$148,973,000) were sold to Peking Founder Group. The directors consider that the sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(b) On 15 December 2008, the Company entered into a master agreement with FHL to govern the sale of information products to FHL and its subsidiaries (collectively "Founder Group") for a term of three years from 1 January 2009 to 31 December 2011. On 12 June 2009, the Company entered into a supplemental agreement with FHL to revise the annual caps for the three years ended 31 December 2011.

On 29 August 2011, the Company entered into a new master agreement with FHL to govern the sale of information products to Founder Group for a term of three years from 1 January 2011 to 31 December 2013.

During the period, information products of approximately HK$603,000 (six months ended 30 June 2011: HK$5,938,000) were sold to Founder Group. The directors consider that the sales of products were made according to published prices and conditions similar to those offered to other customers of the Group.

(c) On 15 December 2008, the Company entered into an HP Master Agreement with FHL to govern the purchase of HP products from Founder Group for a term of three years from 1 January 2009 to 31 December 2011.

On 29 August 2011, the Company entered into a New HP Master Agreement with FHL to govern the purchase of HP products from Founder Group for a term of three years from 1 January 2011 to 31 December 2013.

During the period, HP products of approximately HK$87,606,000 (six months ended 30 June 2011: HK$131,709,000) were purchased from Founder Group and commission fees of approximately HK$255,000 (six months ended 30 June 2011: HK$473,000) were paid to Founder Group. The directors consider that the purchases of HP products and commission fees were made in accordance with the New HP Master Agreement.

(d) On 19 November 2010, the Company entered into a master agreement with Peking Founder for the purchase of information products from Peking Founder Group for the three years ending 31 December 2012.

During the period, purchase of information products of approximately HK$977,000 (six months ended 30 June 2011: HK$46,000) from Peking Founder Group were made by the Group. The directors consider that the purchase of information products from Peking Founder Group were made in accordance with the terms of the master agreement.

(e) On 12 June 2009, the Company entered into an entrusted loan master agreement (the "Entrusted Loan Master Agreement") with Peking Founder, pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ended 31 December 2011.

On 1 November 2011, the Company renewed the Entrusted Loan Master Agreement with Peking Founder pursuant to which the Group would provide short term loans through a financial institution to Peking Founder Group for the three years ending 31 December 2014.

On 21 September 2011, the Group provided a six-month short term loan of approximately HK$196,160,000 to a subsidiary of Peking Founder and the related interest of approximately HK$2,136,000 was earned by the Group during the period ended 30 June 2012. The loan is unsecured and bears an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 15% of such rate. The entrusted loan and related interest receivables were fully settled by Peking Founder during the period ended 30 June 2012.

On 30 September 2011, the Group provided a six-month short term loan of approximately HK$85,820,000 to a subsidiary of Peking Founder and the related interest of approximately HK$894,000 was earned by the Group during the period ended 30 June 2012. The loan is unsecured and bears an interest at the prevailing benchmark Renminbi lending rate for loan period of six months offered by the PBOC plus 10% of such rate. The entrusted loan and related interest receivable were fully settled by that subsidiary of Peking Founder Group during the period ended 30 June 2012.

The total entrusted loans of HK$281,980,000 and related interest of HK$5,386,000 receivable from the subsidiaries of Peking Founder remained undue and were included in prepayments, deposits and other receivables in the consolidated statement of financial position as at 31 December 2011. Such entrusted loans and related interest receivables were fully settled by the subsidiaries of Peking Founder during the period ended 30 June 2012. The directors consider that the provision of the entrusted loans to Peking Founder Group was made in accordance with the Entrusted Loan Master Agreement.

(f) On 13 January 2011, the Company, PKU Founder Group Finance Co., Ltd. ("Founder Finance") and Peking Founder entered into a financial service agreement, pursuant to which Founder Finance would provide the Group with (i) deposit service; (ii) loan services; and (iii) miscellaneous financial service subject to the terms and conditions provided therein for the three years ending 31 December 2013. Peking Founder has provided the guarantee to the Company in the financial services agreement.

As at 30 June 2012, the Group made deposits of approximately HK$94,169,000 (31 December 2011: HK$95,927,000) in Founder Finance and the related interest of approximately HK$886,000 (six months ended 30 June 2011: HK$71,000) was earned by Group during the six months ended 30 June 2012. The interest rates on these deposits offered by Founder Finance were the prevailing interest rates offered by the PBOC.

(g) On 13 November 2008, Beijing Founder Century Information System Co., Ltd. ("PRC Century"), a wholly-owned subsidiary of the Company, entered into two lease agreements with a subsidiary of Peking Founder to lease office premises in Beijing, the PRC, effective from 1 January 2009 to 31 December 2011.

During the six months ended 30 June 2011, rental and management fee expenses of approximately HK$1,035,000 were paid by PRC Century to a subsidiary of Peking Founder. The directors consider that the rental and management fee expenses were paid in accordance with the terms of the lease agreements.

(h) As at 30 June 2012, guarantees were given by Peking Founder to banks in connection with banking facilities granted to the Group of approximately HK$1,680,840,000 (31 December 2011: HK$1,753,180,000) which were utilised to the extent of approximately HK$702,919,000 (31 December 2011: HK$551,299,000).

The related party transactions in respect of items (a) to (g) above for the current interim period also constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(II) Outstanding balances with related parties

(a) The balance due from subsidiaries of FHL included in prepayments, deposits and other receivables in the condensed consolidated statement of financial position as at 30 June 2012 were approximately HK$1,451,000 (31 December 2011: Nil). The balances are unsecured, interest-free and have no fixed terms of repayment.

(b) The balances due to subsidiaries of FHL included in other payables and accruals in the condensed consolidated statement of financial position as at 30 June 2012 were approximately HK$3,692,000 (31 December 2011: HK$866,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(c) Except for the entrusted loan and related interest receivables due from a subsidiary of Peking Founder discussed in note 12(I)(e) to the condensed consolidated interim financial statements, other balances due from Peking Founder Group included in prepayments, deposits and other receivables were approximately HK$10,329,000 (31 December 2011: HK$11,703,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(d) The balances due to Peking Founder Group included in other payables and accruals in the condensed consolidated statement of financial position as at 30 June 2012 were approximately HK$3,306,000 (31 December 2011: HK$1,706,000). The balances are unsecured, interest-free and have no fixed terms of repayment.

(e) The balance due to Peking Founder Group included in long term payable as at 30 June 2012 was approximately HK$5,400,000 (31 December 2011: HK$5,400,000). The balance is unsecured, interest-free and not repayable within one year.

(f) Details of the Group's trade balances with its related companies as at the end of the reporting period are included in note 9 and note 11 to the condensed consolidated interim financial statements.

(III) Compensation of key management personnel of the Group

In the opinion of the directors, the directors of the Company represented the key management personnel of the Group. Compensation paid to directors during the period is as follows:

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Short term employee benefits	646	846
Equity-settled share option expense	1,475	–
Post-employment benefits	6	6
Total compensation paid to key management personnel	2,127	852

13. CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

14. COMPARATIVE AMOUNTS

During the period, the directors of the Company have reviewed the components of the administrative expenses and considered it is more appropriate to reclassify the interest expenses on discounted bills from the administrative expenses to finance costs. Accordingly, a prior period adjustment has been made to reclassify the interest expenses on discounted bills of approximately HK$26,916,000 to finance costs in the condensed consolidated income statement for the six months ended 30 June 2011, to conform with the current period's presentation.

15. EVENT AFTER THE REPORTING PERIOD

On 23 August 2012, the Company entered into a sale and purchase and subscription agreement with Founder Information (Hong Kong) Limited ("Founder Information"), the substantial shareholder of the Company, pursuant to which the Company has conditionally agreed to (i) purchase 100% equity interests in Hong Kong Tianranju Holdings Limited and Hong Kong Tianhe Holdings Limited from Founder Information for a total consideration of HK$537 million (the "Acquisition"), which will be satisfied by the issue of shares and convertible bonds of the Company; and (ii) issue subscription convertible bonds to Founder Information at the consideration of HK$62 million (the "Bonds Issuance"). Up to the date of approval of these condensed consolidated interim financial statements, the Acquisition and Bonds Issuance have not been completed.

5. INDEBTEDNESS STATEMENT

As at the close of business on 30 September 2012, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings of approximately HK$460.6 million which comprised unsecured bank loans of approximately HK$154.9 million and secured bank loans of approximately HK$305.7 million. The above unsecured bank loans included bank loans of approximately HK$146.8 million guaranteed by Peking Founder, a substantial shareholder of the Company. The secured bank loans were secured by certain of the Enlarged Group's properties under development.

As at the close of business on 30 September 2012, the Enlarged Group provided a guarantee of approximately HK$12.4 million to certain banks relating to the mortgage loans arranged for the purchasers of the Enlarged Group's properties sold to these purchasers.

Save as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital and overdrafts or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances (other than normal trade bills), or acceptance credits, or any guarantees or other material contingent liabilities at the close of business on 30 September 2012.

The Directors confirmed that for the period from 30 September 2012 up to the Latest Practicable Date, there is no material change in the Enlarged Group's indebtedness and contingent liabilities.

6. WORKING CAPITAL

Taking into account the expected completion of the Acquisition and the Subscription and the financial resources available to the Enlarged Group, including but not limited to the internally generated funds, cash and cash equivalents on hands, available facilities from bank and financial institutions as well as related companies, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

7. MATERIAL CHANGE

Save for the Group's loss of approximately HK$34.6 million attributable to owners of the parent for the six months ended 30 June 2012 compared to a loss of approximately HK$1.8 million attributable to owners of the parent for the same period in 2011, which was disclosed in the Group's 2012 interim report published on 13 September 2012, the Directors have confirmed that there has been no material change in the Group's financial or trading position or outlook since 31 December 2011, the date to which the latest published audited financial statements of the Group were made up to the Latest Practicable Date.

8. RESTRICTION ON REMITTANCE

Under the current PRC laws, dividends of PRC companies can be paid only out of the after-tax profit calculated according to PRC accounting principles, which differ in many respects from generally accepted accounting principles in other jurisdictions. Furthermore, PRC law requires foreign invested enterprises, such as its operating subsidiaries in PRC, to set aside part of their net profit as statutory reserves. The Company's PRC subsidiaries are required to set aside each year at least 10% of its after tax profits for such year, as reported in its PRC statutory financial statements, to the statutory surplus reserve of such PRC subsidiaries. Such reserve may not be discontinued until the accumulated amount has reached 50% of the registered capital of PRC subsidiaries. These statutory reserves are not available for distribution to the Company, except in liquidation. The calculation of distributable profits under PRC Accounting Standards and Regulations differs in certain aspects from the calculation under HKFRS. As a result, the Company's subsidiaries in PRC may not be able to pay any dividend in a given year to the Company if they do not have distributable profits as determined under PRC Accounting Standards and Regulations, even if it has profits for that year as determined under HKFRS.

9. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Set out below is the management discussion and analysis of the Group for the three years ended 31 December 2009, 2010 and 2011 as extracted from the annual reports of the Group and the six months ended 30 June 2012 as extracted from the interim report of the Group.

MANAGEMENT DISCUSSIONS AND ANALYSIS FOR THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2009

OPERATING REVIEW AND PROSPECTS

Distribution of information products ("Distribution Business")

The Group's principal operating activity during the year is the distribution of information products business. The Distribution Business recorded a turnover of HK$3,812.8 million representing a decrease of 3.8% comparing to the last financial year. Gross profit for the Distribution Business also recorded a slight decline of 8.4% to HK$177.1 million for the year ended 31 December 2009 (year ended 31 December 2008: HK$193.4 million). Gross profit margin has decreased slightly to 4.6% for the current financial year comparing to 4.9% for the year ended 31 December 2008.

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, Apple, IBM, Netgear, CommScope, Barco and SGI.

In August 2009, the Group's principal subsidiary, Beijing Founder Century Information Systems Co., Ltd. ("PRC Century"), became the platinum strategic partner of Tandberg (騰博中國地區白金級合作伙伴), which strengthened our distributionship network for high definition video products. In addition, the Distribution Business has been awarded by various upstream vendors during the current financial year for its excellent partnership in terms of distribution channel, coverage, growth and overall performance in the PRC. PRC Century was awarded as H3C excellent general agent (H3C優秀總代理獎).

To maintain its growth and profitability of the Distribution Business under the competitive operating environment in the PRC, the management continued to closely monitor the profitability and performance of each product line. Less resources were put on those product lines which generated lower gross profit margin and poor performance leading to a slight decline in turnover during the current financial year.

In addition, we further expanded our sales team and increased marketing and selling effort, so as to broaden our customer base and strengthen our position in the PRC's information products distribution business, resulting in the increase in total selling and distribution costs. On the other hand, we strictly controlled our operating expenses leading to the reduction in the administrative expenses. As a result of management's continued effort in debt collection, the impairment of trade receivables has decreased leading to the increase in other operating income.

To maintain continued expansion in operation, the Group has placed much effort on current assets management. The Group's trade and bills receivables and inventory turnover periods have increased from 2008's 30.9 days and 13.0 days to the current year's 38.9 days and 16.4 days respectively. The working capital ratio for the Group as at 31 December 2009 was maintained at 1.24 (31 December 2008: 1.20).

PROSPECTS

Given the continuous sign of recovery of the economy of China, the management will closely monitor changes in China's economy and its IT market. The Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance shareholders' value. The Distribution Business will continuously refine its product structure to avoid product overlapping and minimize market risk. The Group will focus on the distribution of information products with higher margin and exploring the more profitable value-added service business. Moreover, the management will also place stronger emphasis on operating cash flow, stringent control on working capital such as trade receivable and payables and inventory and cost management. The Group will continue to look for alliance with other international information products suppliers and investment opportunities.

EMPLOYEE

The Group has developed its human resources policies and procedures based on performance and merits. The Group ensures that the pay level of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Group had not granted any share options to its eligible directors and employees during the current financial year.

The Group has approximately 731 employees as at 31 December 2009 (31 December 2008: 716).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

During the current financial year, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. As at 31 December 2009, the Group had approximately HK$26.9 million interest-bearing bank and other borrowings (31 December 2008: HK$10.4 million), of which approximately HK$26.9 million (31 December 2008: Nil) were fixed interest bearing and Nil (31 December 2008: HK$10.4 million) were floating interest bearing. Bank and other borrowings were denominated in Renminbi ("RMB") and United States Dollars ("U.S. dollars") and repayable within one year. The Group's banking facilities were secured by corporate guarantees given by the Company and Peking University Founder Group Company Limited.

At 31 December 2009, the Group recorded total assets of approximately HK$1,450.7 million (31 December 2008: HK$1,476.8 million) which were financed by liabilities of approximately HK$1,130.2 million (31 December 2008: HK$1,192.3 million) and equity of approximately HK$320.5 million (31 December 2008: HK$284.5 million). The Group's net asset value as at 31 December 2009 increased by approximately 11.5% to HK$0.29 as compared to approximately HK$0.26 as at 31 December 2008.

The Group had total cash and bank balances of approximately HK$597.1 million as at 31 December 2009 (31 December 2008: HK$412.2 million). After deducting the Group's bank and other borrowings, the Group recorded net cash and bank balances of approximately HK$570.2 million as at 31 December 2009 (31 December 2008: HK$401.8 million). The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. As at 31 December 2009, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.08 (31 December 2008: 0.04) while the Group's current ratio was maintained at 1.24 (31 December 2008: 1.20).

At 31 December 2009, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars, RMB and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in Hong Kong dollars, RMB and U.S. dollars.

Exposure to fluctuations in exchange rates and related hedges

Most of the Group's borrowings are denominated in RMB and U.S. dollars while the sales of the Group are mainly denominated in RMB and U.S. dollars. As the exchange rates of U.S. Dollars against Hong Kong dollars and RMB were relatively stable during the year under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposals of subsidiaries and associates in 2009.

Charges on assets

As at 31 December 2009, bank deposits of approximately HK$178.1 million were pledged to banks to secure general banking facilities granted.

Future plans for material investments or capital assets

The Group did not have any future plans for material investments or capital assets as at 31 December 2009.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2009 (2008: Nil).

MANAGEMENT DISCUSSIONS AND ANALYSIS FOR THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2010

OPERATING REVIEW AND PROSPECTS

Distribution of information products ("Distribution Business")

The Group's principal operating activity during the year is the distribution of information products business. The Distribution Business recorded a turnover of HK$4,649.3 million representing an increase of 21.9% comparing to the last financial year. Gross profit for the Distribution Business also recorded an increase of 14.2% to HK$202.2 million for the year ended 31 December 2010 (year ended 31 December 2009: HK$177.1 million). Gross profit margin was maintained at 4% for both years.

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, Apple, CommScope, Barco, Brocade, Hitachi and Iomega.

The Distribution Business has been awarded by various upstream vendors during the current year for its excellent partnership in terms of distribution channel, coverage, growth and overall performance in the PRC. The Group's principal subsidiary, Beijing Founder Century Information Systems Co., Ltd. ("PRC Century"), obtained the special honours of 2009 distributors best growth awards（2009年度分銷商獎-最佳成長獎）by CommScope in May 2010 and H3C excellent general agency awards（H3C 優秀總代理獎）by H3C in March 2010. The 2010 Best Service Award（最佳服務獎）was granted by HP in November 2010. In addition, Simens authorised PRC Century as the sole distributor of HiPath1100 in the PRC（HiPath1100全國總包銷）in the strategic corporation briefing held on 29 June 2010. This product provides the solutions for information transfer process which can increase the efficiency and minimise the cost of work in medium to small enterprises. The corporation with systems integration services providers enables the Group to provide to the customers a more comprehensive solution. PRC Century was also engaged to develop application systems such as the information resources sharing platform and call center monitoring system for various government departments and enterprises in the PRC.

To maintain its growth and profitability of the Distribution Business under the competitive operating environment in the PRC, the management continued to closely monitor the profitability and performance of each product line. More resources were put on the development of application solutions which generated higher gross profit margin. In addition, we further expanded our sales team and increased marketing and selling effort, so as to broaden our customer base and strengthen our position in the PRC's information products distribution business, resulting in the increase in total selling and administrative expenses. To maintain continued expansion in operation, the Group has placed much effort on current assets management. The Group's trade and bills receivables turnover period has increased slightly from 2009's 38.9 days to the current year's 43.4 days due to the increase in sales in the fourth quarter of the year. Due to the stock in transit of HK$262.5 million from the suppliers before the current year end date, the inventory turnover periods has increased from 16.4 days in 2009 to 29.4 days in 2010. Most of the stock in transit were sold after the current year end date. The working capital ratio for the Group as at 31 December 2010 was maintained at 1.17 (31 December 2009: 1.24).

PROSPECTS

The Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance shareholders' value. The Distribution Business will continuously refine its product structure to avoid product overlapping and minimise market risk. The Group will focus on the distribution of information products with higher profit margin and exploring the more profitable value-added service business. Moreover, the management will also place stronger emphasis on operating cash flow, stringent control on working capital such as trade receivables and payables and inventory and cost management. The Group will continue to look for alliance with other international information products suppliers and investment opportunities.

EMPLOYEES

The Group has developed its human resources policies and procedures based on performance and merits. The Group ensures that the pay level of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Group had not granted any share options to its eligible directors and employees during the current financial year.

The Group has approximately 739 employees as at 31 December 2010 (31 December 2009: 731).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

During the current financial year, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. As at 31 December 2010, the Group had approximately HK$106.2 million interest-bearing bank borrowings (31 December 2009: HK$26.9 million), of which nil (31 December 2009: HK$26.9 million) were fixed interest bearing and HK$106.2 million (31 December 2009: Nil) were floating interest bearing. Bank borrowings were denominated in Renminbi ("RMB") and United States Dollars ("U.S. dollars") and repayable within one year. The Group's banking facilities were secured by corporate guarantees given by the Company and Peking University Founder Group Company Limited.

At 31 December 2010, the Group recorded total assets of approximately HK$2,130.0 million (31 December 2009: HK$1,450.7 million) which were financed by liabilities of approximately HK$1,781.9 million (31 December 2009: HK$1,130.2 million) and equity of approximately HK$348.1 million (31 December 2009: HK$320.5 million). The Group's net asset value per share as at 31 December 2010 increased by approximately 6.9% to HK$0.31 as compared to approximately HK$0.29 as at 31 December 2009.

The Group had total cash and bank balances of approximately HK$689.9 million as at 31 December 2010 (31 December 2009: HK$597.1 million). After deducting the Group's bank borrowings, the Group recorded net cash and bank balances of approximately HK$583.7 million as at 31 December 2010 (31 December 2009: HK$570.2 million). The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. As at 31 December 2010, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.31 (31 December 2009: 0.08) while the Group's current ratio was maintained at 1.17 (31 December 2009: 1.24).

At 31 December 2010, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars ("HKD"), RMB and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in HKD, RMB and U.S. dollars.

Exposure to fluctuations in exchange rates and related hedges

The Group operates mainly in Hong Kong and Mainland China. For the operations in Hong Kong, most of the transactions are denominated in HKD and U.S. dollars. The exchange rate of U.S. dollars against HKD is relatively stable and the related currency exchange risk is considered minimal. For the operations in Mainland China, most of the transactions are denominated in RMB. Given the appreciation of RMB against HKD during the year under review, no financial instrument was used for hedging purposes. It is expected that the appreciation of RMB would have a favourable impact on the Group.

Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposals of subsidiaries and associates in 2010.

Charges on assets

As at 31 December 2010, bank deposits of approximately HK$189.0 million (31 December 2009: HK$178.1 million) were pledged to banks to secure general banking facilities granted.

Future plans for material investments or capital assets

The Group did not have any future plans for material investments or capital assets as at 31 December 2010.

Contingent liabilities

Certain associates of the Group, which are owned as to 36.69% by the Group, have tax disputes with Hong Kong Inland Revenue Department (the "IRD"), which had issued notices of additional tax assessments for the years of assessment from 2001/02 to 2004/05 demanding tax payments of approximately HK$13,820,000. Such associates of the Group had lodged objections against these assessments and are in the process of resolving the tax disputes with the IRD at the date of this announcement. Should the tax disputes be settled in accordance with the abovementioned additional tax assessments, the share of additional tax of associates by the Group would be approximately HK$5,071,000.

Save as disclosed above, as at 31 December 2010, the Group did not have any significant contingent liabilities (31 December 2009: Nil).

MANAGEMENT DISCUSSIONS AND ANALYSIS FOR THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011

OPERATING REVIEW AND PROSPECTS

Distribution of information products ("Distribution Business")

The Group's principal operating activity during the year is the distribution of information products business. The Distribution Business recorded a turnover of HK$5,400.1 million representing an increase of 16.2% comparing to the last financial year. Gross profit for the Distribution Business also recorded an increase of 30.5% to HK$263.8 million for the year ended 31 December 2011 (year ended 31 December 2010: HK$202.2 million). Gross profit margin has increased from 4.3% for the year ended 31 December 2010 to 4.9% for the current financial year.

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, Apple, CommScope, Barco, Brocade, Hitachi and Iomega. The increase in turnover during the current year is mainly attributable to the increase in sales in various product lines as a result of continuous launch of new products and more effort on the expansion of distribution network in the third tier cities. Despite of intense competition in the distribution market, the gross profit and gross profit margin have increased because of increase in effort to control cost of products and monitor the profit margin of each product line.

The Distribution Business has been awarded by various upstream vendors during the current year for its excellent partnership in terms of distribution channel, coverage, growth and overall performance in the PRC. The Group's principal subsidiary, Beijing Founder

Century Information Systems Co., Ltd. ("PRC Century"), obtained the special honours of Best distribution channel development award (最佳渠道拓展獎), Best contribution in distribution of HP workstations award (惠普工作站最佳分銷貢獻獎), and Mobile workstation area authorised distributors certificate (移動工作站區域授權分銷商證書) by HP in January 2011. In March 2011, PRC Century obtained the Best Growth Award (最佳成長獎) from CommScope. In May 2011, PRC Century obtained the seventh in 2011 "500 China Computer Vendor-Distributor 100" (2011中國電腦商500強－分銷商100強) organised by Computer Partner World (電腦商報) in May 2011. In addition, in January 2011, Simens authorised PRC Century as the sole distributor of HiPath1100 in the PRC (HiPath1100全國總包銷). In March 2011, Fujitsu authorised PRC Century as the sole distributor of Fujitsu PRIMERGY X 86 server. The cooperation with systems integration services providers enables the Group to provide to the customers a more comprehensive solution. In January 2012, PRC Century was awarded as The Most Successful Supplier of IT Channel in 2011 (2011年最成功IT渠道供應商) in the Annual Review of Contribution to China's information industry (中國信息產業創新貢獻年度評選活動) organised by CCID Media (賽迪傳媒).

To maintain its growth and profitability of the Distribution Business under the competitive operating environment in the PRC, the management continued to closely monitor the profitability and performance of each product line. More resources were put on the development of application solutions which generated higher gross profit margin. In addition, we further expanded our sales team and increased marketing and selling effort, so as to broaden our customer base and strengthen our position in the PRC's information products distribution business, resulting in the increase in total selling and administrative expenses.

To maintain continued expansion in operation, the Group has placed much effort on current assets management. The Group's trade and bills receivables turnover period has increased slightly from 2010's 43.4 days to the current year's 46.4 days due to the increase in sales in the fourth quarter of the year. The inventory turnover periods was maintained at around 29 days in both years. The working capital ratio for the Group as at 31 December 2011 was maintained at 1.19 (31 December 2010: 1.17).

PROSPECTS

The Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance shareholders' value. The Distribution Business will continuously refine its product structure to avoid product overlapping and minimise market risk. The Group will focus on the distribution of information products with higher profit margin and exploring the more profitable value-added service business. Moreover, the management will also place stronger emphasis on operating cash flow, stringent control on working capital such as trade receivables and payables and inventory and cost management. The Group will continue to look for alliance with other international information products suppliers and investment opportunities.

EMPLOYEES

The Group has developed its human resources policies and procedures based on performance and merits. The Group ensures that the pay level of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option schemes for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Group granted share options to its eligible directors and employees during the current financial year.

The Group has approximately 718 employees as at 31 December 2011 (31 December 2010: 739).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

During the current financial year, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. As at 31 December 2011, the Group had approximately HK$566.9 million interest-bearing bank borrowings (31 December 2010: HK$106.2 million) which were floating interest bearing. Bank borrowings were denominated in Renminbi ("RMB") and United States Dollars ("U.S. dollars") and repayable within one year. The Group's banking facilities were guaranteed by the Company, Peking University Founder Group Company Limited ("Peking Founder") and its subsidiary, and an independent third party.

At 31 December 2011, the Group recorded total assets of approximately HK$1,921.7 million (31 December 2010: HK$2,130.0 million) which were financed by liabilities of approximately HK$1,582.5 million (31 December 2010: HK$1,781.9 million) and equity of approximately HK$339.2 million (31 December 2010: HK$348.1 million). The Group's net asset value per share as at 31 December 2011 and 2010 was maintained at HK$0.31.

The Group had total cash and bank balances of approximately HK$530.4 million as at 31 December 2011 (31 December 2010: HK$689.9 million). After deducting the Group's bank borrowings, the Group recorded net borrowings balances of approximately HK$36.5 million as at 31 December 2011 (31 December 2010: net cash and bank balances of HK$583.7 million). The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. The increase in bank borrowings was attributable to the increase in bank borrowings and reduction in the discounted bills (included in trade and bills payables) in the PRC in view of the higher interest rate of discounted bills as compared with that of bank borrowings in the PRC. Trade and bills payables declined by HK$619.0 million to HK$828.1 million as at 31 December 2011 accordingly. As at 31 December 2011, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 1.67 (31 December 2010: 0.31) while the Group's current ratio was maintained at 1.19 (31 December 2010: 1.17).

At 31 December 2011, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars ("HKD"), RMB and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in HKD, RMB and U.S. dollars.

Exposure to fluctuations in exchange rates and related hedges

The Group operates mainly in Hong Kong and Mainland China. For the operations in Hong Kong, most of the transactions are denominated in HKD and U.S. dollars. The exchange rate of U.S. dollars against HKD is relatively stable and the related currency exchange risk is considered minimal. For the operations in Mainland China, most of the transactions are denominated in RMB. Given the appreciation of RMB against HKD during the year under review, no financial instrument was used for hedging purposes. It is expected that the appreciation of RMB would have a favourable impact on the Group.

Material acquisitions and disposals of subsidiaries and associates

The Group had no material acquisition or disposals of subsidiaries and associates in 2011.

Charges on assets

As at 31 December 2011, bank deposits of approximately HK$81.2 million (31 December 2010: HK$189.0 million) were pledged to banks to secure general banking facilities granted.

Future plans for material investments or capital assets

The Group did not have any future plans for material investments or capital assets as at 31 December 2011.

Contingent liabilities

At 31 December 2011, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSIONS AND ANALYSIS FOR THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2012

OPERATING REVIEW AND PROSPECTS

Distribution of information products ("Distribution Business")

The Group's principal operating activity during the current interim period is the distribution of information products business. The Distribution Business recorded a turnover of HK$1,274.8 million representing a decrease of 49.5% as compared to last interim period. Gross profit for the Distribution Business has decreased by 50.5% to HK$66.7 million for the current interim period (six months ended 30 June 2011: HK$134.8 million), and gross profit margin was maintained at 5%.

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, CommScope, Barco, Brocade, Microsoft, Epson, Samsung, Corning and Iomega. The decrease in turnover during the current interim period is mainly attributable to the streamline of various product lines to concentrate the effort on product lines with better trading terms in view of the intense competition in the distribution market.

The Distribution Business has been awarded by various upstream vendors during the current interim period for its excellent partnership in terms of distribution channel, coverage, growth and overall performance in the PRC. The Group's principal subsidiary, Beijing Founder Century Information Systems Co., Ltd. ("PRC Century"), obtained the special honours of 2011 Most Successful IT Distribution Chanel Vendor award（2011年最成功IT渠道供應商）in 2011 Service platform selection organised by China Market Intelligence Center（賽迪網）in February 2012. PRC Century also obtained the award of Financial year 2011 Best distribution of SWD product（FY11最佳SWD產品分銷獎）from HP in February 2012.

As the business environment in the PRC is becoming more competitive and the unfavorable factors arising from the macro-control policies, the management strictly control operating costs and expenses leading to a decrease in total selling and distribution costs and administrative expenses by 10.1% to HK$87.4 million during the current interim period (six months ended 30 June 2011: HK$97.1 million). The Distribution Business will continuously refine its product structure to avoid product overlapping and minimise market risk. The Group will focus on the distribution of information products with better trading terms and exploring the more profitable value-added service business.

In addition, the Group focus on the current assets management. The Group's trade and bills receivables and inventory turnover periods have increased from the six months ended 30 June 2011's 51.6 days and 37.4 days to the current interim period's 85.8 days and 41.6 days, respectively. The increase in trade and bills receivables turnover period is due to increase in the proportion of sales to systems integration service providers with longer credit terms provided. The lengthening of aging of debtors led to an increase in impairment of trade receivables in accordance with the provision policy. The increase in inventory turnover periods is mainly attributable to increase in inventory level of workstations resulted from an anticipation of increase in sales in the second half of the year which is normally the peak season of the industry. The current ratio for the Group as at 30 June 2012 was 1.27 (31 December 2011: 1.19).

PROSPECTS

The Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance shareholders' value. The Distribution Business will continuously refine its product structure to avoid product overlapping and minimise market risk. Moreover, the management will also place stronger emphasis on operating cash flow, stringent control on working capital such as trade receivable and payables and inventory and cost management. The Group will continue to look for alliance with other international information products suppliers and investment opportunities.

EMPLOYEE

The Group has developed its human resources policies and procedures based on performance and merits. The Group ensures that the pay level of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance.

The Group operates share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group who contribute to the success of the Group's operations. The Group had not granted any share options to its eligible directors and employees during the current interim period.

The Group has approximately 574 employees as at 30 June 2012 (31 December 2011: 718).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

During the current interim period, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. As at 30 June 2012, the Group had approximately HK$205.3 million interest-bearing bank borrowings (31 December 2011: HK$566.9 million). Bank borrowings are denominated in Renminbi ("RMB") and United States Dollars ("U.S. dollars") and repayable within one year. The Group's banking facilities were secured by corporate guarantees given by the Company and Peking University Founder Group Company Limited, the substantial shareholder of the Company.

At 30 June 2012, the Group recorded total assets of approximately HK$1,283.7 million (31 December 2011: HK$1,921.7 million) which were financed by liabilities of approximately HK$983.2 million (31 December 2011: HK$1,582.5 million) and equity of approximately HK$300.5 million (31 December 2011: HK$339.2 million). The Group's net asset value per share as at 30 June 2012 was maintained at HK$0.27 (31 December 2011: HK$0.31).

The Group had total cash and bank balances and pledged deposits of approximately HK$354.8 million as at 30 June 2012 (31 December 2011: HK$530.4 million). After deducting the Group's bank borrowings, the Group recorded net cash and bank balances of approximately HK$149.5 million as at 30 June 2012 (31 December 2011: net borrowings of HK$36.5 million). The decrease in bank borrowings is attributable to better utilisation of fund and the increase in discounted bills (included in trade and bills payables) in the PRC as a result of decline in interest rate of discounted bills during the period. Bills payable increased by HK$149.6 million to HK$493.3 million as at 30 June 2012 accordingly. The Group's borrowings, which are subject to little seasonality, consist of mainly short term bank loans and trust receipt loans. As at 30 June 2012, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 0.68 (31 December 2011: 1.67) while the Group's current ratio was 1.27 (31 December 2011: 1.19).

At 30 June 2012, the Group did not have any material capital expenditure commitments.

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars ("HKD"), RMB and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in HKD, RMB and U.S. dollars.

Exposure to fluctuations in exchange rates and related hedges

The Group operates mainly in Hong Kong and Mainland China. For the operations in Hong Kong, most of the transactions are denominated in HKD and U.S. dollars. The exchange rate of U.S. dollars against HKD is relatively stable and the related currency exchange risk is considered minimal. For the operations in Mainland China, most of the transactions are denominated in RMB. No financial instrument was used for hedging purposes. It is expected that the appreciation of RMB would have a favourable impact on the Group.

Material acquisitions and disposals of subsidiaries and associates

The Group had no acquisition or disposals of subsidiaries and associates for the six months ended 30 June 2012.

Charges on assets

As at 30 June 2012, bank deposits of approximately HK$114.4 million (31 December 2011: HK$81.2 million) were pledged to banks to secure general banking facilities granted.

Future plans for material investments or capital assets

The Group did not have any future plans for material investments or capital assets as at 30 June 2012.

Contingent liabilities

As at 30 June 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is engaged in distribution of information products such as servers, printers, switches, networking products, storage devices, workstations and optical screen products of a number of internationally famed and branded information products manufacturers such as HP, H3C, CommScope, Barco, Brocade, Microsoft, Epson, Samsung, Corning and Iomega, in the PRC and Hong Kong. The Group is dedicated for a medium to long term development plan of maintaining a satisfactory growth in results and fulfilling its objective to enhance shareholders' value. The Group will continue to look for alliance with other international information products suppliers and investment opportunities.

Upon Completion, the Enlarged Group will, through Tianranju and Tianhe, be engaged in the property development, investment and leasing business. The Group believes that the Proposed Acquisition will provide an opportunity for the Group to tap into the PRC property market and to generate diversified income and additional cashflow. The Enlarged Group will continue to strengthen the competitiveness of its services and products as a whole as well as its business and financial performance.

ERNST & YOUNG
安 永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

16 November 2012

The Directors
EC-Founder (Holdings) Company Limited

Dear Sirs,

We set out below our report on the financial information of Hubei Tianranju Business Management Limited ("Hubei Tianranju") and its subsidiary (hereinafter collectively referred to as "Hubei Tianranju Group") comprising the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of Hubei Tianranju Group for each of the years ended 31 December 2009, 2010 and 2011, and the five months ended 31 May 2012 (the "Relevant Periods"), and the consolidated statements of financial position of Hubei Tianranju Group and the statements of financial position of Hubei Tianranju as at 31 December 2009, 2010 and 2011 and 31 May 2012, together with the notes thereto (the "Financial Information"), and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of Hubei Tianranju Group for the five months ended 31 May 2011 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the shareholders' circular of EC-Founder (Holdings) Company Limited (the "Company") dated 16 November 2012 (the "Circular") in connection with the proposed acquisition of Hong Kong Tianranju Holdings Limited ("Tianranju") and Hong Kong Tianhe Holdings Limited.

Hubei Tianranju was established as a limited liability company on 21 May 1998 in the People's Republic of China (the "PRC") and is under the direct supervision of Tianranju, a related company of the Company. Hubei Tianranju Group is principally engaged in property investment and property development in the PRC. Details of the principal activities of the companies comprising Hubei Tianranju Group are set out in note 1 of Section II below.

As at 31 May 2012, Hubei Tianranju has direct interest in the subsidiary as set out in note 1 of Section II below. Both companies comprising Hubei Tianranju Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies comprising Hubei Tianranju Group were prepared in accordance with the relevant accounting principles applicable to these companies in the country in which they were established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of Hubei Tianranju (the "Directors") have prepared the consolidated financial statements of Hubei Tianranju Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2009, 2010 and 2011, and the five months ended 31 May 2012 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Hubei Tianranju Group as at 31 December 2009, 2010 and 2011 and 31 May 2012 and of the consolidated results and cash flows of Hubei Tianranju Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Five months ended 31 May	
		2009	2010	2011	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
REVENUE	*5*	4,667	5,526	5,925	2,432	2,543
Cost of sales		(1,349)	(993)	(893)	(539)	(270)
Gross profit		3,318	4,533	5,032	1,893	2,273
Other income and gains	*5*	591	1,598	1,528	1,480	40
Fair value gains/(losses) on investment properties, net	*12*	5,110	4,107	6,000	3,000	(1,000)
Selling and distribution costs		–	–	(1,228)	–	(5,645)
Administrative expenses		(526)	(319)	(940)	(169)	(3,519)
Other expenses		(15)	(1)	–	–	(16)
Finance costs	*7*	(567)	(1,583)	–	–	–
PROFIT/(LOSS) BEFORE TAX	*6*	7,911	8,335	10,392	6,204	(7,867)
Income tax expense	*9*	(2,685)	(2,434)	(2,907)	(1,336)	(337)
PROFIT/(LOSS) FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		5,226	5,901	7,485	4,868	(8,204)
Attributable to:						
Owners of the parent		5,226	5,901	8,334	4,868	(3,775)
Non-controlling interests		–	–	(849)	–	(4,429)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 May
		2009	**2010**	**2011**	**2012**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*11*	132	87	2,687	3,033
Investment properties	*12*	150,373	154,480	160,480	159,480
Prepaid land lease payments	*13*	6,186	6,018	5,850	5,781
Goodwill	*14*	–	–	38,121	38,121
Total non-current assets		156,691	160,585	207,138	206,415
CURRENT ASSETS					
Properties under development	*16*	–	–	373,525	385,838
Trade receivables	*17*	–	–	–	759
Prepayments, deposits and other receivables	*18*	139,791	133,958	18,785	8,070
Due from shareholders	*19*	1,700	1,750	–	–
Due from fellow subsidiaries	*22*	–	6,880	3,848	–
Due from related companies	*20*	33,755	–	133	–
Restricted cash	*23*	–	–	8,309	8,320
Cash and cash equivalents	*23*	5,719	4,567	6,616	3,113
Total current assets		180,965	147,155	411,216	406,100
CURRENT LIABILITIES					
Trade payables	*24*	–	–	60,751	48,366
Other payables and accruals	*25*	286,578	283,327	200,370	184,361
Due to a related company	*20*	–	–	–	5
Due to fellow subsidiaries	*22*	–	–	106,036	136,453
Due to an intermediate holding company	*21*	–	–	92,760	92,760
Total current liabilities		286,578	283,327	459,917	461,945
NET CURRENT LIABILITIES		(105,613)	(136,172)	(48,701)	(55,845)
TOTAL ASSETS LESS CURRENT LIABILITIES		51,078	24,413	158,437	150,570

		As at 31 December			As at 31 May
		2009	2010	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES					
Interest-bearing bank loan	*26*	35,000	–	–	–
Deferred tax liabilities	*27*	5,052	7,486	23,996	24,333
Total non-current liabilities		40,052	7,486	23,996	24,333
Net assets		11,026	16,927	134,441	126,237
EQUITY					
Equity attributable to owners of the parent					
Issued capital	*28*	30,000	30,000	30,000	30,000
Accumulated losses		(18,974)	(13,073)	(4,739)	(8,514)
		11,026	16,927	25,261	21,486
Non-controlling interests		–	–	109,180	104,751
Total equity		11,026	16,927	134,441	126,237

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the parent				
	Note	Issued capital *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2009		30,000	(24,200)	5,800	–	5,800
Profit for the year and total comprehensive income for the year		–	5,226	5,226	–	5,226
At 31 December 2009 and 1 January 2010		30,000	(18,974)	11,026	–	11,026
Profit for the year and total comprehensive income for the year		–	5,901	5,901	–	5,901
At 31 December 2010 and 1 January 2011		30,000	(13,073)	16,927	–	16,927
Profit/(loss) for the year and total comprehensive income/(loss) for the year		–	8,334	8,334	(849)	7,485
Acquisition of a subsidiary	*29*	–	–	–	110,029	110,029
At 31 December 2011 and 1 January 2012		30,000	(4,739)	25,261	109,180	134,441
Loss for the period and total comprehensive loss for the period		–	(3,775)	(3,775)	(4,429)	(8,204)
At 31 May 2012		30,000	(8,514)	21,486	104,751	126,237
At 1 January 2011		30,000	(13,073)	16,927	–	16,927
Profit for the period and total comprehensive income for the period (unaudited)		–	4,868	4,868	–	4,868
At 31 May 2011 (unaudited)		30,000	(8,205)	21,795	–	21,795

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Five months ended 31 May	
		2009	2010	2011	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		7,911	8,335	10,392	6,204	(7,867)
Adjustments for:						
Finance costs	7	567	1,583	–	–	–
Interest income	5	(590)	(1,598)	(42)	(5)	(36)
Loss/(gain) on disposal of items of property, plant and equipment	6	15	–	(5)	–	–
Depreciation	6	56	45	71	14	279
Changes in fair value of investment properties	12	(5,110)	(4,107)	(6,000)	(3,000)	1,000
Recognition of prepaid land lease payments	13	168	168	168	69	69
		3,017	4,426	4,584	3,282	(6,555)
Increase in properties under development		–	–	(8,915)	–	(12,313)
Increase in trade receivables		–	–	–	–	(759)
Decrease/(increase) in prepayments, deposits and other receivables		(3,686)	5,833	121,855	121,754	10,715
Decrease/(increase) in amounts due from shareholders		2,200	(50)	1,750	1,750	–
Decrease/(increase) in amounts due from fellow subsidiaries		–	(6,880)	3,032	6,880	3,848
Decrease/(increase) in amounts due from related companies		1,245	(1,245)	(133)	–	133
Decrease/(increase) in restricted cash		–	–	3,798	–	(11)
Increase/(decrease) in trade payables		–	–	3,274	–	(12,385)
Decrease in other payables and accruals		(1,122)	(3,251)	(176,517)	(138,267)	(16,009)
Increase in an amount due to a related company		–	–	–	–	5
Increase in amounts due to fellow subsidiaries		–	–	106,036	–	417
Cash generated from/(used in) operations		1,654	(1,167)	58,764	(4,601)	(32,914)
Interest received		23	15	42	5	36
Net cash flows from/(used in) operating activities		1,677	(1,152)	58,806	(4,596)	(32,878)

		Year ended 31 December			Five months ended 31 May	
		2009	2010	2011	2011	2012
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		567	1,583	–	–	–
Purchases of items of property, plant and equipment		–	–	(507)	–	(625)
Proceeds from disposal of items of property, plant and equipment		74	–	281	47	–
Acquisition of a subsidiary	29	–	–	(149,291)	–	–
Net cash flows from/(used in) investing activities		641	1,583	(149,517)	47	(625)
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loan		35,000	–	–	–	–
Repayment of a bank loan		–	(35,000)	–	–	–
Decrease/(increase) in amounts due from related companies		(35,000)	35,000	–	–	–
Increase in an amount due to an intermediate holding company		–	–	92,760	–	–
Increase in amounts due to fellow subsidiaries		–	–	–	–	30,000
Interest paid		(567)	(1,583)	–	–	–
Net cash flows from/(used in) financing activities		(567)	(1,583)	92,760	–	30,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,751	(1,152)	2,049	(4,549)	(3,503)
Cash and cash equivalents at beginning of year/period		3,968	5,719	4,567	4,567	6,616
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		5,719	4,567	6,616	18	3,113
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	23	5,719	4,567	6,616	18	3,113

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 May
		2009	2010	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*11*	132	87	15	8
Investment properties	*12*	150,373	154,480	160,480	159,480
Prepaid land lease payments	*13*	6,186	6,018	5,850	5,781
Investment in a subsidiary	*15*	–	–	152,641	152,641
Total non-current assets		156,691	160,585	318,986	317,910
CURRENT ASSETS					
Trade receivables	*17*	–	–	–	759
Prepayments, deposits and other receivables	*18*	139,791	133,958	12,312	256
Due from shareholders	*19*	1,700	1,750	–	–
Due from fellow subsidiaries	*22*	–	6,880	3,848	–
Due from a related company	*20*	33,755	–	–	–
Cash and bank balances	*23*	5,719	4,567	23	1,659
Total current assets		180,965	147,155	16,183	2,674
CURRENT LIABILITIES					
Other payables and accruals	*25*	286,578	283,327	192,868	177,111
Due to a fellow subsidiary	*22*	–	–	105,765	105,765
Total current liabilities		286,578	283,327	298,633	282,876
NET CURRENT LIABILITIES		(105,613)	(136,172)	(282,450)	(280,202)
TOTAL ASSETS LESS CURRENT LIABILITIES		51,078	24,413	36,536	37,708
NON-CURRENT LIABILITIES					
Interest-bearing bank loan	*26*	35,000	–	–	–
Deferred tax liabilities	*27*	5,052	7,486	10,393	10,730
Total non-current liabilities		40,052	7,486	10,393	10,730
Net assets		11,026	16,927	26,143	26,978

		As at 31 December			As at 31 May
		2009	2010	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
EQUITY					
Issued capital	*28*	30,000	30,000	30,000	30,000
Accumulated losses		(18,974)	(13,073)	(3,857)	(3,022)
Total equity		11,026	16,927	26,143	26,978

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Hubei Tianranju (note (a)) is a limited liability company registered in the PRC on 21 May 1998. The registered office of Hubei Tianranju is located at Tower B, Asia Plaza, Shandong Anenue, Wuhan, Hubei, the PRC.

During the Relevant Periods and the five months ended 31 May 2011, the principal activities of Hubei Tianranju and its subsidiary (collectively referred to as "Hubei Tianranju Group") are property investment and property development.

Hubei Tianranju was previously owned 94% by 武漢國興科技發展有限公司 (Wuhan Guoxing Technology Development Company Limited*) ("Wuhan Guoxing") and 6% directly and 94% indirectly owned by 正中資產管理有限公司 (Zhengzhong Asset Management Company Limited*) ("Zhengzhong"), which are limited liability companies registered in the PRC. In March 2011, the equity interests in Hubei Tianranju held by Wuhan Guoxing and Zhengzhong were transferred to Hong Kong Tianranju Holdings Limited ("Tianranju"), a limited liability company incorporated in Hong Kong. In the opinion of the directors of Hubei Tianranju, Hubei Tianranju's ultimate holding company is 北京北大資產經營有限公司 (Peking University Asset Management Company Limited*) ("PKU Asset Management"), which is registered in the PRC.

Particulars of the subsidiary of Hubei Tianranju as at 31 May 2012 are set out below:

Name	Place and date of registration	Nominal value of registered share capital	Percentage of equity interest attributable to Hubei Tianranju	Principal activity
昆山高科電子藝術創意產業發展有限公司 (Kunshan Hi-Tech Electronic Arts Creative Industry Development Company Limited*) ("Kunshan Hi-Tech") *(note (b))*	PRC 18 April 2008	RMB200,000,000	51%	Property development

Notes:

(a) The statutory financial statements of Hubei Tianranju for the years ended 31 December 2009, 2010 and 2011 prepared under PRC generally accepted accounting principles ("PRC GAAP") were audited by 武漢德誠聯合會計師事務所 (Wuhan Decheng C.P.A. Partnership*), certified public accountants registered in the PRC.

(b) The statutory financial statements of Kunshan Hi-Tech prepared under PRC GAAP were audited by 亞太(集團)會計師事務所有限公司 (Asia Pacific Certified Public Accountants (Group) Company Limited*), certified public accountants registered in the PRC, for the year ended 31 December 2011.

* *For identification purpose only*

2.1 BASIS OF PRESENTATION

The Financial Information incorporates the financial statements of Hubei Tianranju Group for the Relevant Periods and for the five months ended 31 May 2011. The financial statements of the subsidiary are prepared for the same reporting period as Hubei Tianranju, using consistent accounting policies. The results of the subsidiary are consolidated from the date of acquisition, being the date on which Hubei Tianranju Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If Hubei Tianranju Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. Hubei Tianranju Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Notwithstanding that Hubei Tianranju Group and Hubei Tianranju had net current liabilities as at the end of each of the Relevant Periods, in the opinion of the directors of Hubei Tianranju, it is appropriate that the Financial Information has been prepared under the going concern basis because:

(i) on 5 July 2012, a one-year entrusted loan of RMB250,000,000 was provided to Hubei Tianranju Group by 北大資源集團有限公司 (Peking University Resource Group Company Limited*) ("PKU Resource"), a fellow subsidiary of Hubei Tianranju; and

(ii) PKU Resource has agreed to provide adequate financial support to Hubei Tianranju Group to meet its liabilities as and when they fall due.

** For identification purpose only*

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2012, together with the relevant transitional provisions, have been early adopted by Hubei Tianranju Group in the preparation of the Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Information.

The Financial Information has been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Hubei Tianranju Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 13	*Fair Value Measurement*[2]
Annual Improvements to HKFRSs 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12: *Transition Guidance*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]

HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect Hubei Tianranju Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. Hubei Tianranju Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of Hubei Tianranju Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. Hubei Tianranju Group expects to adopt HKFRS 10, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which Hubei Tianranju Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. Hubei Tianranju Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. Hubei Tianranju Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. Hubei Tianranju Group expects to adopt HKAS 19 (2011) from 1 January 2013.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. Hubei Tianranju Group expects to adopt the amendments from 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies Hubei Tianranju controls, directly or indirectly, so as to obtain benefits from its activities.

The results of a subsidiary are included in Hubei Tianranju's profit or loss to the extent of dividends received and receivable. Hubei Tianranju's investment in a subsidiary is stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by Hubei Tianranju Group, liabilities assumed by Hubei Tianranju Group to the former owners of the acquiree and the equity interests issued by Hubei Tianranju Group in exchange for control of the acquiree. For each business combination, Hubei Tianranju Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When Hubei Tianranju Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of Hubei Tianranju Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Hubei Tianranju Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Hubei Tianranju Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of Hubei Tianranju Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to Hubei Tianranju Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over Hubei Tianranju Group;

(ii) has significant influence over Hubei Tianranju Group; or

(iii) is a member of the key management personnel of Hubei Tianranju Group or of a parent of Hubei Tianranju Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and Hubei Tianranju Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and Hubei Tianranju Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either Hubei Tianranju Group or an entity related to Hubei Tianranju Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) 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).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, Hubei Tianranju Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	20%
Motor vehicles	16.7% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each of the Relevant Periods.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Hubei Tianranju Group is the lessor, assets leased by Hubei Tianranju Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where Hubei Tianranju Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Hubei Tianranju Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that Hubei Tianranju Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Hubei Tianranju Group's financial assets include cash and bank balances, trade and other receivables, deposits, and amounts due from shareholders and related companies.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- Hubei Tianranju Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) Hubei Tianranju Group has transferred substantially all the risks and rewards of the asset, or (b) Hubei Tianranju Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Hubei Tianranju Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Hubei Tianranju Group's continuing involvement in the asset. In that case, Hubei Tianranju Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Hubei Tianranju Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Hubei Tianranju Group could be required to repay.

Impairment of financial assets

Hubei Tianranju Group assesses at the end of each of the Relevant Periods whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, Hubei Tianranju Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Hubei Tianranju Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Hubei Tianranju Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Hubei Tianranju Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

Hubei Tianranju Group's financial liabilities include trade and other payables, amounts due to an intermediate holding company, fellow subsidiaries, and related companies, accruals and an interest-bearing bank loan.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by Hubei Tianranju Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, Hubei Tianranju Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of each of the Relevant Periods; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and building costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Hubei Tianranju Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which Hubei Tianranju Group operates.

Deferred tax is provided using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with an investment in a subsidiary, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with an investment in a subsidiary, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Hubei Tianranju Group and when the revenue can be measured reliably, on the following bases:

(a) From the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The employees of Hubei Tianranju Group which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The Financial Information is presented in RMB, which is Hubei Tianranju's functional and presentation currency. Each entity in Hubei Tianranju Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in Hubei Tianranju Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of Hubei Tianranju Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each of the Relevant Periods. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying Hubei Tianranju Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Operating lease commitments – Hubei Tianranju Group as lessor

Hubei Tianranju Group has entered into commercial property leases on its investment property portfolio. Hubei Tianranju Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

Hubei Tianranju Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, Hubei Tianranju Group considers whether a property generates cash flows largely independently of the other assets held by Hubei Tianranju Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, Hubei Tianranju Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Classification between investment properties and properties held for sale and properties under development

Hubei Tianranju Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale or a property under development. In general, Hubei Tianranju Group considers its intention for holding the properties at the early development stage of the related properties. However, in response to the market demand for investment properties, Hubei Tianranju Group would from time to time amend the corporate strategies on Hubei Tianranju Group's property portfolio. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after their completion, whereas the properties are accounted for as investment properties under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

Hubei Tianranju Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires Hubei Tianranju Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 14 below.

Estimation of fair value of investment properties

Investment properties are carried in the statement of financial position at their fair values. The fair value was based on a valuation on the properties conducted by an independent firm of professionally qualified valuers using property valuation techniques which involve making assumptions on certain market conditions.

Favourable or unfavourable changes to these assumptions would result in changes in the fair values of Hubei Tianranju Group's investment properties and the corresponding adjustments to the gain or loss recognised in profit or loss.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 27 below.

Recognition and allocation of construction costs 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 the 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 Hubei Tianranju Group based on management's best estimate. When developing properties, Hubei Tianranju Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to different phases are allocated to individual phases based on saleable area. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

4. OPERATING SEGMENT INFORMATION

For management purposes, Hubei Tianranju Group is organised into business units based on their products and services. For the years ended 31 December 2009 and 2010 and the five months ended 31 May 2011, no operating segment analysis is presented as Hubei Tianranju Group has only one operating segment which is the property investment segment. For the year ended 31 December 2011 and the five months ended 31 May 2012, Hubei Tianranju Group has two reportable operating segments as follows:

(a) the property investment segment engages in the leasing of an office building; and

(b) the property development segment engages in the development and sale of properties.

Management monitors the results of Hubei Tianranju Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with Hubei Tianranju Group's profit/(loss) before tax except that interest income is excluded from such measurement.

Segment assets exclude restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude an interest-bearing bank loan and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2011

	Property investment	**Property development**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue:			
Rental income from external customers	5,925	–	5,925
Segment results	12,119	(1,769)	10,350
Reconciliation:			
Interest income			42
Profit before tax			10,392
Segment assets	178,594	420,925	599,519
Reconciliation:			
Corporate and other unallocated assets			18,835
Total assets			618,354
Segment liabilities	10,640	174,890	185,530
Reconciliation:			
Corporate and other unallocated liabilities			298,383
Total liabilities			483,913
Other segment information:			
Depreciation and amortisation	192	47	239
Capital expenditure*	–	2,947	2,947

Five months ended 31 May 2012

	Property investment *RMB'000*	Property development *RMB'000*	Total *RMB'000*
Segment revenue:			
Rental income from external customers	2,543	–	2,543
Segment results	1,172	(9,075)	(7,903)
Reconciliation:			
Interest income			36
Profit before tax			(7,867)
Segment assets	166,220	434,798	601,018
Reconciliation:			
Corporate and other unallocated assets			11,497
Total assets			612,515
Segment liabilities	11,426	192,674	204,100
Reconciliation:			
Corporate and other unallocated liabilities			282,178
Total liabilities			486,278
Other segment information:			
Depreciation and amortisation	77	271	348
Capital expenditure*	–	625	625

* Capital expenditure consists of additions to property, plant and equipment, including assets from the acquisition of a subsidiary.

Geographical information

During the Relevant Periods, Hubei Tianranju Group's revenue from external customers is derived solely from its operations in Mainland China, and all non-current assets of Hubei Tianranju Group are located in Mainland China.

Information about a major customer

Revenue of approximately RMB1,289,000, RMB905,000, RMB1,313,000, RMB543,000 and RMB587,000 was derived from rental income received from a single external customer during the years ended 31 December 2009, 2010 and 2011 and the five months ended 31 May 2011 and 2012, respectively.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also Hubei Tianranju Group's turnover, represents the gross rental income received and receivable from investment properties during the Relevant Periods and the five months ended 31 May 2011.

An analysis of Hubei Tianranju Group's revenue, other income and gains is as follows:

	Year ended 31 December			Five months ended 31 May	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue					
Gross rental income	4,667	5,526	5,925	2,432	2,543
Other income					
Bank interest income	23	15	42	5	36
Interest income from a related company	567	1,583	–	–	–
Others	1	–	1	–	2
	591	1,598	43	5	38
Gains					
Gain on disposal of items of property, plant and equipment	–	–	5	–	–
Others	–	–	1,480	1,475	2
	–	–	1,485	1,475	2
	591	1,598	1,528	1,480	40

6. PROFIT BEFORE TAX

Hubei Tianranju Group's profit/(loss) before tax is arrived at after charging/(crediting):

		Year ended 31 December			Five months ended 31 May	
		2009	**2010**	**2011**	**2011**	**2012**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Depreciation	*11*	56	45	71	14	279
Minimum lease payments under operating leases of land and buildings		–	–	58	4	128
Amortisation of land lease payments	*13*	168	168	168	69	69
Auditors' remuneration		8	4	7	2	3
Employee benefit expense:						
Wages and salaries		17	19	330	8	1,898
Pension scheme contributions*		2	2	38	1	211
		19	21	368	9	2,109
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		1,349	993	893	539	270
Loss/(gain) on disposal of items of property, plant and equipment		15	–	(5)	–	–

* At 31 December 2009, 2010 and 2011 and 31 May 2012, Hubei Tianranju Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

7. FINANCE COSTS

An analysis of Hubei Tianranju Group's finance costs is as follows:

	Year ended 31 December			Five months ended 31 May	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Interest on a bank loan wholly repayable within five years	567	1,583	–	–	–

8. DIRECTORS' REMUNERATION

No directors received any fee or emolument in respect of their services rendered to Hubei Tianranju Group during the Relevant Periods and for the five months ended 31 May 2011.

9. INCOME TAX

	Year ended 31 December			Five months ended 31 May	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Hubei Tianranju Group:					
Deferred *(note 27)*	2,685	2,434	2,907	1,336	337

PRC corporate income tax

The PRC corporate income tax represents the tax charged on the estimated assessable profits, arising in Mainland China, based on the existing legislation, interpretations and practices in respect thereof. No PRC corporate income tax has been provided because Hubei Tianranju Group did not have any assessable profits arising in Mainland China during the Relevant Periods and the five months ended 31 May 2011.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which Hubei Tianranju and Kunshan Hi-Tech are domiciled to the tax expense at the effective tax rate is as follows:

Hubei Tianranju Group

	Year ended 31 December			Five months ended 31 May	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit/(loss) before tax	7,911	8,335	10,392	6,204	(7,867)
Tax at the statutory tax rate of 25%	1,978	2,084	2,598	1,551	(1,967)
Expenses not deductible for tax	2	2	223	–	1,050
Tax losses utilised from previous years	–	–	(124)	(215)	–
Tax losses not recognised	705	348	210	–	1,254
Tax charge at Hubei Tianranju Group's effective rate	2,685	2,434	2,907	1,336	337

10. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

11. PROPERTY, PLANT AND EQUIPMENT

Hubei Tianranju Group

	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2009, net of accumulated depreciation	–	277	277
Depreciation	–	(56)	(56)
Disposals	–	(89)	(89)
At 31 December 2009 and 1 January 2010, net of accumulated depreciation	–	132	132
Depreciation	–	(45)	(45)
At 31 December 2010 and 1 January 2011, net of accumulated depreciation	–	87	87
Additions	101	406	507
Acquisition of a subsidiary *(note 29)*	1,408	1,032	2,440
Depreciation	(26)	(45)	(71)
Disposals	–	(276)	(276)
At 31 December 2011 and 1 January 2012, net of accumulated depreciation	1,483	1,204	2,687
Additions	98	527	625
Depreciation	(146)	(133)	(279)
At 31 May 2012, net of accumulated depreciation	1,435	1,598	3,033
At 31 December 2009 and 1 January 2010:			
Cost	–	288	288
Accumulated depreciation	–	(156)	(156)
Net carrying amount	–	132	132
At 31 December 2010 and 1 January 2011:			
Cost	–	288	288
Accumulated depreciation	–	(201)	(201)
Net carrying amount	–	87	87
At 31 December 2011:			
Cost	1,509	1,310	2,819
Accumulated depreciation	(26)	(106)	(132)
Net carrying amount	1,483	1,204	2,687
At 31 May 2012:			
Cost	1,607	1,837	3,444
Accumulated depreciation	(172)	(239)	(411)
Net carrying amount	1,435	1,598	3,033

Hubei Tianranju

	Motor vehicles
	RMB'000
At 1 January 2009, net of accumulated depreciation	277
Depreciation	(56)
Disposals	(89)
At 31 December 2009 and 1 January 2010, net of accumulated depreciation	132
Depreciation	(45)
At 31 December 2010 and 1 January 2011, net of accumulated depreciation	87
Depreciation	(25)
Disposals	(47)
At 31 December 2011 and 1 January 2012, net of accumulated depreciation	15
Depreciation	(7)
At 31 May 2012, net of accumulated depreciation	8
At 31 December 2009 and 1 January 2010:	
Cost	288
Accumulated depreciation	(156)
Net carrying amount	132
At 31 December 2010 and 1 January 2011:	
Cost	288
Accumulated depreciation	(201)
Net carrying amount	87
At 31 December 2011:	
Cost	107
Accumulated depreciation	(92)
Net carrying amount	15
At 31 May 2012:	
Cost	107
Accumulated depreciation	(99)
Net carrying amount	8

12. INVESTMENT PROPERTIES

Hubei Tianranju Group and Hubei Tianranju

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of the year/period	145,263	150,373	154,480	160,480
Net gain/(loss) from a fair value adjustment	5,110	4,107	6,000	(1,000)
Carrying amount at end of the year/period	150,373	154,480	160,480	159,480

Hubei Tianranju Group's investment properties are situated in Mainland China and are held under medium term leases.

Hubei Tianranju Group's investment properties were revalued on 31 December 2009, 2010 and 2011 and 31 May 2012 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at RMB150,373,000, RMB154,480,000, RMB160,480,000 and RMB159,480,000, respectively, on investment value basis in their existing states. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 31(a) to the Financial Information.

At 31 December 2009, certain of Hubei Tianranju Group's investment properties with a carrying value of RMB150,000,000 were pledged to secure a bank loan granted to Hubei Tianranju (note 26).

At 31 December 2010 and 2011, certain of Hubei Tianranju Group's investment properties with carrying values of RMB154,000,000 and RMB160,000,000, respectively, were pledged to secure banking facilities granted to certain subsidiaries of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), an intermediate holding company of Hubei Tianranju. This pledge was released during the five months ended 31 May 2012.

* *For identification purpose only*

13. PREPAID LAND LEASE PAYMENTS

Hubei Tianranju Group and Hubei Tianranju

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of the year/period	6,522	6,354	6,186	6,018
Recognised during the year/period	(168)	(168)	(168)	(69)
Carrying amount at end of the year/period	6,354	6,186	6,018	5,949
Current portion included in prepayments, deposits and other receivables	(168)	(168)	(168)	(168)
Non-current portion	6,186	6,018	5,850	5,781

The leasehold land is situated in Mainland China and is held under a medium term lease.

14. GOODWILL

Hubei Tianranju Group

	RMB'000
Cost at 1 January 2009, 31 December 2009, 1 January 2010, 31 December 2010 and 1 January 2011, net of accumulated impairment	–
Acquisition of a subsidiary *(note 29)*	38,121
Cost and net carrying amount at 31 December 2011 and 31 May 2012	38,121
At 31 December 2011 and 31 May 2012:	
Cost	38,121
Accumulated impairment	–
Net carrying amount	38,121

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the property development cash-generating unit for impairment testing.

The recoverable amount of the property development cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on a financial budget covering a seven-year period approved by senior management, which is equal to the development period of Phase I of the project under the development of the property development unit according to the property development plan. The discount rates applied to the cash flow projection as at 31 December 2011 and 31 May 2012 are 12.5% and 13.0%, respectively. The pre-sale of part of Phase I of the project under the development of the property development unit has been commenced in March 2012 and no revenue is expected to be generated after the aforesaid seven-year period.

Key assumptions were used in the value in use calculation of the property development cash-generating unit for 31 December 2011 and 31 May 2012. The following describes each key assumption on which management has based its cash flow projection to undertake impairment testing of goodwill: i) budgeted gross margin was determined based on management's expectation on market development; and ii) the discount rate used is after tax and reflects specific risks relating to the property development unit. The values assigned to the key assumptions on market development of property development unit and discount rates are determined with reference to external information sources, such as published information for comparable companies, e.g. listed companies in real estate development industry located and mainly operated in Mainland China.

15. INVESTMENT IN A SUBSIDIARY

Hubei Tianranju

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	–	–	152,641	152,641

Particulars of Hubei Tianranju's subsidiary as at 31 December 2011 and 31 May 2012 are set out in note 1 of this section.

16. PROPERTIES UNDER DEVELOPMENT

Hubei Tianranju Group

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties under development expected to be completed within normal operating cycle and recovered after more than one year	–	–	373,525	385,838

Hubei Tianranju Group's properties under development are located in Mainland China.

At 31 May 2012, Hubei Tianranju Group's properties under development with a carrying value of approximately RMB385,838,000 were pledged to secure an entrusted loan of RMB250,000,000 granted by PKU Resource, a fellow subsidiary of Hubei Tianranju.

17. TRADE RECEIVABLES

Trade receivables mainly consist of rental receivables under operating leases. Payment terms of the operating leases are stipulated in the relevant lease agreements. An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

Hubei Tianranju Group and Hubei Tianranju

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	–	–	–	759

All of Hubei Tianranju Group's trade receivables are not considered to be impaired. Hubei Tianranju Group's trade receivables relate to a large number of diversified customers. Based on past experience, the directors of Hubei Tianranju are of the opinion that no provision for impairment is necessary in respect of these balances as there was no recent history of default and the balances are still considered fully recoverable.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Hubei Tianranju Group

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	–	–	4,070	6,688
Deposits and other receivables	139,623	133,790	14,547	1,214
Current portion of prepaid land lease payments *(note 13)*	168	168	168	168
	139,791	133,958	18,785	8,070

Hubei Tianranju

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits and other receivables	139,623	133,790	12,144	88
Current portion of prepaid land lease payments *(note 13)*	168	168	168	168
	139,791	133,958	12,312	256

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

19. DUE FROM SHAREHOLDERS

The balances with shareholders are unsecured, interest-free and have no fixed terms of repayment.

20. BALANCES WITH RELATED COMPANIES

Hubei Tianranju Group and Hubei Tianranju

Name	*Note*	As at 31 December **2009** *RMB'000*	**2010** *RMB'000*	**2011** *RMB'000*	As at 31 May **2012** *RMB'000*
Tianhe Property Development Limited ("Tianhe Property")	*(i)*	33,755	–	–	–
China Hi-Tech Group Company Limited ("China Hi-Tech")	*(ii)*	–	–	133	(5)
		33,755	–	133	(5)

Hubei Tianranju

Name	*Note*	As at 31 December **2009** *RMB'000*	**2010** *RMB'000*	**2011** *RMB'000*	As at 31 May **2012** *RMB'000*
Tianhe Property	*(i)*	33,755	–	–	–
		33,755	–	–	–

Notes:

(i) Tianhe Property was owned 18% by Hubei Tianranju as at 31 December 2009. In May 2011, Hubei Tianranju transferred its equity interest in Tianhe Property to Zhengzhong.

(ii) China Hi-Tech was owned 24.37% by Peking Founder, Hubei Tianranju Group's intermediate holding company, as at 31 December 2011 and 31 May 2012.

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment.

21. DUE TO AN INTERMEDIATE HOLDING COMPANY

The balance with an intermediate holding company is unsecured, interest-free and has no fixed terms of repayment.

22. BALANCES WITH FELLOW SUBSIDIARIES

The balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

23. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Hubei Tianranju Group

		As at 31 December			As at 31 May
		2009	2010	2011	2012
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	*(a)*	5,719	4,567	14,925	11,433
Less: restricted cash	*(b)*	–	–	(8,309)	(8,320)
Cash and cash equivalents		5,719	4,567	6,616	3,113

Hubei Tianranju

	As at 31 December			As at 31 May
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	5,719	4,567	23	1,659

(a) The cash and bank balances of Hubei Tianranju Group are all denominated in RMB at the end of each of the Relevant Periods. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, Hubei Tianranju Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Pursuant to relevant regulations in the PRC, Hubei Tianranju Group is required to place certain amounts at designated bank accounts as guarantee deposits for the construction of the relevant properties. As at 31 December 2011 and 31 May 2012, such guarantee deposits amounted to approximately RMB8,309,000 and RMB8,320,000, respectively.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

Hubei Tianranju Group

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year or on demand	–	–	60,751	48,366

The trade payables are non-interest-bearing and are normally settled on terms of three to six months.

25. OTHER PAYABLES AND ACCRUALS

Hubei Tianranju Group

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances from customers	–	–	1,014	3,697
Other payables and accruals	286,578	283,327	199,356	180,664
	286,578	283,327	200,370	184,361

Hubei Tianranju

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances from customers	–	–	–	353
Other payables and accruals	286,578	283,327	192,868	176,758
	286,578	283,327	192,868	177,111

Other payables are non-interest-bearing and have an average term of three months to one year.

26. INTEREST-BEARING BANK LOAN

Hubei Tianranju Group and Hubei Tianranju

	As at 31 December 2009		
	Effective interest rate (%)	*Maturity*	*RMB'000*
Non-current			
Bank loan – secured	6.34	2014	35,000

	As at 31 December 2009
	RMB'000
Analysed into:	
Bank loan repayable in the third to fifth years, inclusive	35,000

The interest-bearing bank loan, which was secured by certain of Hubei Tianranju Group's investment properties with a carrying amount of approximately RMB150,000,000 as at 31 December 2009, was early repaid during the year ended 31 December 2010.

27. DEFERRED TAX

The movements in deferred tax liabilities during the Relevant Periods are as follows:

Deferred tax liabilities

Hubei Tianranju Group

	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of a subsidiary	Revaluation of properties	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	2,693	–	(326)	2,367
Deferred tax charged to profit or loss during the year *(note 9)*	1,407	–	1,278	2,685
At 31 December 2009 and 1 January 2010	4,100	–	952	5,052
Deferred tax charged to profit or loss during the year *(note 9)*	1,407	–	1,027	2,434
At 31 December 2010 and 1 January 2011	5,507	–	1,979	7,486
Deferred tax charged to profit or loss during the year *(note 9)*	1,407	–	1,500	2,907
Acquisition of a subsidiary *(note 29)*	–	13,603	–	13,603
At 31 December 2011 and 1 January 2012	6,914	13,603	3,479	23,996
Deferred tax charged/(credited) to profit or loss during the period *(note 9)*	586	–	(249)	337
At 31 May 2012	7,500	13,603	3,230	24,333

Deferred tax liabilities

Hubei Tianranju

	Depreciation allowance in excess of related depreciation	Revaluation of properties	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009	2,693	(326)	2,367
Deferred tax charged to profit or loss during the year	1,407	1,278	2,685
At 31 December 2009 and 1 January 2010	4,100	952	5,052
Deferred tax charged to profit or loss during the year	1,407	1,027	2,434
At 31 December 2010 and 1 January 2011	5,507	1,979	7,486
Deferred tax charged to profit or loss during the year	1,407	1,500	2,907
At 31 December 2011 and 1 January 2012	6,914	3,479	10,393
Deferred tax charged/(credited) to profit or loss during the period	586	(249)	337
At 31 May 2012	7,500	3,230	10,730

Deferred tax assets have not been recognised in respect of the following item:

	Hubei Tianranju Group				Hubei Tianranju			
	As at 31 December			As at 31 May	As at 31 December			As at 31 May
	2009	2010	2011	2012	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Tax losses	13,216	10,561	16,693	21,706	13,216	10,561	8,522	8,695

The above tax losses arising in Mainland China will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

28. ISSUED CAPITAL

	As at 31 December			As at 31 May
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered and paid-up capital	30,000	30,000	30,000	30,000

29. BUSINESS COMBINATION

In November 2011, Hubei Tianranju acquired 51% equity interest in Kunshan Hi-Tech from China Hi-Tech at a cash consideration of approximately RMB152,641,000. Kunshan Hi-Tech is engaged in property development.

Hubei Tianranju Group has elected to measure the non-controlling interests in Kunshan Hi-Tech at the non-controlling interests' proportionate share of Kunshan Hi-Tech's identifiable net assets.

The fair values of the identifiable assets and liabilities of Kunshan Hi-Tech as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition *RMB'000*
Property, plant and equipment	*11*	2,440
Properties under development		364,610
Restricted cash		12,107
Cash and cash equivalents		3,350
Prepayments, deposits and other receivables		6,682
Trade payables		(57,477)
Other payables and accruals		(93,560)
Deferred tax liabilities	*27*	(13,603)
Total identifiable net assets at fair value		224,549
Non-controlling interests		(110,029)
Goodwill on acquisition	*14*	38,121
Satisfied by cash		152,641

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(152,641)
Cash and cash equivalents acquired	3,350
Net outflow of cash and cash equivalents included in cash flows from investing activities	(149,291)

Since the acquisition, Kunshan Hi-Tech did not generate any revenue and contributed a net loss of approximately RMB1,733,000 to Hubei Tianranju Group's consolidated profit for the year ended 31 December 2011.

30. CONTINGENT LIABILITIES

Hubei Tianranju Group and Hubei Tianranju had the following contingent liabilities not provided for as at the end of each of the Relevant Periods:

(i) As at 31 May 2012, Hubei Tianranju Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers, related to the pre-sale of Hubei Tianranju Group's properties as at 31 May 2012. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, Hubei Tianranju Group is responsible for repaying the outstanding mortgage principal together with the accrued interest and penalty owed by the defaulted purchasers to the banks and Hubei Tianranju Group is entitled to take over the legal title and possession of the related properties. Hubei Tianranju Group's guarantee period starts from the date of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within a certain period after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the directors of Hubei Tianranju consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalty, and therefore no provision has been made in the Financial Information for the guarantees.

(ii) As at 31 December 2010 and 2011, Hubei Tianranju Group and Hubei Tianranju provided guarantees to banks in favour of certain subsidiaries of Peking Founder for banking facilities given to these related companies. Further details are included in notes 33(b)(ii) and 33(b)(iii) below.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

Hubei Tianranju Group leases its investment properties (note 12 to the Financial Information) under operating lease arrangements, with leases negotiated for terms ranging from two to six years. The terms of the leases generally also require the tenants to pay security deposits.

At the end of each of the Relevant Periods, Hubei Tianranju Group and Hubei Tianranju had total future minimum lease receivables (before charging business tax and surcharges) under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	5,877	6,288	6,292	5,915
In the second to fifth years, inclusive	20,644	16,415	11,732	10,103
After five years	4,724	2,666	1,058	583
	31,245	25,369	19,082	16,601

(b) As lessee

Hubei Tianranju Group leases certain of its office properties and sales offices under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At the end of each of the Relevant Periods, Hubei Tianranju Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 31 May
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	–	–	400	406
In the second to fifth years, inclusive	–	–	533	400
	–	–	933	806

Hubei Tianranju has no lease commitments as at the end of each of the Relevant Periods.

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, Hubei Tianranju Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 31 May
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Properties under development	–	–	161,172	151,735

Hubei Tianranju has no commitment as at the end of each of the Relevant Periods.

33. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in the Financial Information, Hubei Tianranju Group had the following transactions with related parties during the Relevant Periods and the five months ended 31 May 2011:

	Year ended 31 December			Five months ended 31 May	
	2009	2010	2011	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Provision of management services from PKU Resource Property	–	–	80	–	625
Interest income from Tianhe Property	567	1,583	–	–	–

These transactions were carried out in accordance with the terms and conditions mutually agreed by both parties.

(b) Other transactions with related parties:

(i) In November 2011, Hubei Tianranju Group acquired 51% equity interest in Kunshan Hi-Tech from China Hi-Tech for a cash consideration of approximately RMB152,641,000. Further details of the acquisition are included in note 29 above.

(ii) During the years ended 31 December 2010 and 2011, Hubei Tianranju Group provided a guarantee and also pledged its investment properties with carrying amounts of RMB154,000,000 and RMB160,000,000 as at 31 December 2010 and 2011, respectively, to a bank in favour of certain subsidiaries of Peking Founder for banking facilities granted to these fellow subsidiaries of RMB150,000,000, which are utilised to the extent of RMB150,000,000 at 31 December 2010 and 2011. The guarantee and the pledge were released during the five months ended 31 May 2012. Further details of the transactions are included in note 12 above.

(iii) During the year ended 31 December 2011, Hubei Tianranju provided a guarantee to a bank in favour of a subsidiary of Peking Founder for banking facilities of RMB50,000,000, which are utilised to the extent of RMB50,000,000 at 31 December 2011. The guarantee was released during the five months ended 31 May 2012.

(iv) On 6 May 2012, Hubei Tianranju Group entered into a loan agreement with PKU Resource, pursuant to which PKU Resource would provide a one-year loan of RMB250,000,000 through a financial institution to Hubei Tianranju Group. The loan was secured by the properties under development of Hubei Tianranju Group with a carrying amount of approximately RMB385,838,000 as at 31 May 2012 as disclosed in note 16 above and interesting-bearing at the interest rate at 12.5% per annum and to be paid semi-annually. The loan was subsequently received by Hubei Tianranju Group on 5 July 2012.

(c) Outstanding balances with related parties:

Details of Hubei Tianranju Group's balances with shareholders, related companies, an intermediate holding company and fellow subsidiaries at the end of each of the Relevant Periods are disclosed in notes 19, 20, 21 and 22 to the Financial Information.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Hubei Tianranju Group

Financial assets – Loans and receivables

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	–	759
Financial assets included in prepayments, deposits and other receivables	139,623	133,790	13,668	848
Due from shareholders	1,700	1,750	–	–
Due from fellow subsidiaries	–	6,880	3,848	–
Due from related companies	33,755	–	133	–
Restricted cash	–	–	8,309	8,320
Cash and cash equivalents	5,719	4,567	6,616	3,113
	180,797	146,987	32,574	13,040

Financial liabilities – Financial liabilities at amortised cost

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	–	60,751	48,366
Financial liabilities included in other payables and accruals	286,523	283,230	197,890	179,435
Due to a related company	–	–	–	5
Due to fellow subsidiaries	–	–	106,036	136,453
Due to an intermediate holding company	–	–	92,760	92,760
Interest-bearing bank loan	35,000	–	–	–
	321,523	283,230	457,437	457,019

Hubei Tianranju

Financial assets – Loans and receivables

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	–	759
Financial assets included in prepayments, deposits and other receivables	139,623	133,790	12,144	88
Due from shareholders	1,700	1,750	–	–
Due from fellow subsidiaries	–	6,880	3,848	–
Due from a related company	33,755	–	–	–
Cash and bank balances	5,719	4,567	23	1,659
	180,797	146,987	16,015	2,506

Financial liabilities – Financial liabilities at amortised cost

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due to a fellow subsidiary	–	–	105,765	105,765
Financial liabilities included in other payables and accruals	286,523	283,230	192,743	176,606
Interest-bearing bank loan	35,000	–	–	–
	321,523	283,230	298,508	282,371

35. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of Hubei Tianranju Group's financial instruments and Hubei Tianranju's financial instruments are equal to the carrying amounts of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank balances, restricted cash, trade receivables, trade payables, amounts due from related parties, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the interest-bearing bank loan has been calculated by discounting the expected future cash flows using a rate currently available for an instrument on similar terms, credit risk and remaining maturities.

Hubei Tianranju Group and Hubei Tianranju did not have any financial instruments measured at fair value at the end of each of the Relevant Periods.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Hubei Tianranju Group's principal financial instruments comprise interest-bearing loan and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for Hubei Tianranju Group's operations. Hubei Tianranju Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the Relevant Periods under review, Hubei Tianranju Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from Hubei Tianranju Group's financial instruments are credit risk and liquidity risk. The directors of Hubei Tianranju review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The credit risk of Hubei Tianranju Group's other financial assets, which comprise cash and cash equivalents, trade receivables, deposits, other receivables and amounts due from related parties arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

Hubei Tianranju Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

Hubei Tianranju Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings.

The maturity profile of Hubei Tianranju Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Hubei Tianranju Group

	As at 31 December 2009	
	Within one year or on demand	**Over one year**
	RMB'000	*RMB'000*
Interest-bearing bank loan	–	36,586
Financial liabilities included in other payables and accruals	286,523	–
	286,523	36,586

	As at 31 December 2010 Within one year or on demand *RMB'000*
Financial liabilities included in other payables and accruals	283,230
Guarantees given to banks in favour of related parties	150,000
	433,230

	As at 31 December 2011 Within one year or on demand *RMB'000*
Trade payables	60,751
Financial liabilities included in other payables and accruals	197,890
Due to fellow subsidiaries	106,036
Due to an intermediate holding company	92,760
Guarantees given to banks in favour of related parties	200,000
	657,437

	As at 31 May 2012 Within one year or on demand *RMB'000*
Trade payables	48,366
Financial liabilities included in other payables and accruals	179,435
Due to a related company	5
Due to fellow subsidiaries	136,453
Due to an intermediate holding company	92,760
Mortgage guarantees	1,330
	458,349

The maturity profile of Hubei Tianranju's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Hubei Tianranju

	As at 31 December 2009	
	Within one year or on demand	**Over one year**
	RMB'000	*RMB'000*
Interest-bearing bank loan	–	36,586
Financial liabilities included in other payables and accruals	286,523	–
	286,523	36,586

	As at 31 December 2010 Within one year or on demand
	RMB'000
Financial liabilities included in other payables and accruals	283,230
Guarantees given to banks in favour of related parties	150,000
	433,230

	As at 31 December 2011 Within one year or on demand
	RMB'000
Financial liabilities included in other payables and accruals	192,743
Due to a fellow subsidiary	105,765
Guarantees given to banks in favour of related parties	200,000
	498,508

	As at 31 May 2012 Within one year or on demand
	RMB'000
Financial liabilities included in other payables and accruals	176,606
Due to a fellow subsidiary	105,765
	282,371

Capital management

The primary objective of Hubei Tianranju Group's capital management is to safeguard Hubei Tianranju Group's ability to continue as a going concern.

Hubei Tianranju Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Hubei Tianranju Group is not subject to any externally imposed capital requirements.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Hubei Tianranju or its subsidiary in respect of any period subsequent to 31 May 2012.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

ERNST & YOUNG
安 永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

16 November 2012

The Directors
EC-Founder (Holdings) Company Limited

Dear Sirs,

We set out below our report on the financial information of Hong Kong Tianranju Holdings Limited ("Tianranju") and its subsidiaries (hereinafter collectively referred to as "Tianranju Group") comprising the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of Tianranju Group for the period from 7 October 2010 (date of incorporation) to 31 December 2010, the year ended 31 December 2011 and the five months ended 31 May 2012 (the "Relevant Periods"), and the consolidated statements of financial position of Tianranju Group and the statements of financial position of Tianranju as at 31 December 2010 and 2011 and 31 May 2012, together with the notes thereto (the "Financial Information"), and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of Tianranju Group for the five months ended 31 May 2011 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the shareholders' circular of EC-Founder (Holdings) Company Limited (the "Company") dated 16 November 2012 (the "Circular") in connection with the proposed acquisition of Tianranju and Hong Kong Tianhe Holdings Limited.

Tianranju was incorporated in Hong Kong with limited liability on 7 October 2010. As at the date of this report, no statutory financial statements have been prepared for Tianranju, as Tianranju has not been involved in any significant business transaction other than the acquisition of Hubei Tianranju Business Management Limited ("Hubei Tianranju") since its incorporation.

As at 31 May 2012, Tianranju has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies comprising Tianranju Group have adopted 31 December as their financial year end date. The statutory financial statements of the subsidiaries of Tianranju were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of Tianranju (the "Directors") have prepared the consolidated financial statements of Tianranju Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for the period from 7 October 2010 (date of incorporation) to 31 December 2010, the year ended 31 December 2011 and the five months ended 31 May 2012 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Tianranju Group and Tianranju as at 31 December 2010 and 2011 and 31 May 2012 and of the consolidated results and cash flows of Tianranju Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Period from 7 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	Five months ended 31 May 2012
		RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
REVENUE	*5*	–	4,963	1,470	2,543
Cost of sales		–	(806)	(453)	(270)
Gross profit		–	4,157	1,017	2,273
Other income and gains	*5*	–	7,555	7,506	40
Fair value gains/(losses) on investment properties, net		–	3,000	–	(1,000)
Selling and distribution costs		–	(1,228)	–	(5,645)
Administrative expenses		(23)	(943)	(76)	(3,557)
Other expenses		–	–	–	(16)
PROFIT/(LOSS) BEFORE TAX	*6*	(23)	12,541	8,447	(7,905)
Income tax expense	*8*	–	(1,904)	(346)	(327)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		(23)	10,637	8,101	(8,232)
Attributable to:					
Owners of the parent		(23)	11,486	8,101	(3,803)
Non-controlling interests		–	(849)	–	(4,429)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations		–	(75)	–	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR/PERIOD, NET OF TAX		–	(75)	–	–
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR/PERIOD		(23)	10,562	8,101	(8,232)
Attributable to:					
Owners of the parent		(23)	11,411	8,101	(3,803)
Non-controlling interests		–	(849)	–	(4,429)
		(23)	10,562	8,101	(8,232)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December		As at 31 May
		2010	2011	2012
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	10	–	2,687	3,033
Investment properties	11	–	160,480	159,480
Prepaid land lease payments	12	–	8,932	8,824
Goodwill	13	–	38,121	38,121
Total non-current assets		–	210,220	209,458
CURRENT ASSETS				
Properties under development	15	–	373,525	385,838
Trade receivables	16	–	–	759
Prepayments, deposits and other receivables	17	–	18,880	8,165
Due from a shareholder	19	–	424	1,651
Due from fellow subsidiaries	20	–	3,858	39
Due from a related company	21	–	133	–
Restricted cash	22	–	8,309	8,320
Cash and cash equivalents	22	8	10,226	5,463
Total current assets		8	415,355	410,235
CURRENT LIABILITIES				
Trade payables	23	–	60,751	48,366
Other payables and accruals	24	7	200,380	184,369
Due to an intermediate holding company	18	–	92,760	92,760
Due to a shareholder	19	15	–	–
Due to fellow subsidiaries	20	–	110,118	140,532
Due to a related company	21	–	–	5
Total current liabilities		22	464,009	466,032
NET CURRENT LIABILITIES		(14)	(48,654)	(55,797)
TOTAL ASSETS LESS CURRENT LIABILITIES		(14)	161,566	153,661
NON-CURRENT LIABILITIES				
Deferred tax liabilities	25	–	24,789	25,116
Net assets/(liabilities)		(14)	136,777	128,545

	Notes	As at 31 December 2010	As at 31 December 2011	As at 31 May 2012
		RMB'000	RMB'000	RMB'000
EQUITY				
Equity attributable to owners of the parent				
Issued capital	*26*	9	16,209	16,209
Reserves	*27(a)*	(23)	11,388	7,585
		(14)	27,597	23,794
Non-controlling interests		–	109,180	104,751
Total equity/(deficiency in assets)		(14)	136,777	128,545

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to owners of the parent					
		Issued capital	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total	Non-controlling interests	Total equity/ (deficiency in assets)
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 7 October 2010 (date of incorporation)		–	–	–	–	–	–
Issue of shares on incorporation	*26*	9	–	–	9	–	9
Loss for the period and total comprehensive loss for the period		–	–	(23)	(23)	–	(23)
At 31 December 2010 and 1 January 2011		9	–	(23)	(14)	–	(14)
Issue of shares	*26*	16,200	–	–	16,200	–	16,200
Profit/(loss) for the year		–	–	11,486	11,486	(849)	10,637
Other comprehensive loss for the year:							
Exchange differences on translation of foreign operations		–	(75)	–	(75)	–	(75)
Total comprehensive income/(loss) for the year		–	(75)	11,486	11,411	(849)	10,562
Acquisition of a subsidiary	*28*	–	–	–	–	110,029	110,029
At 31 December 2011 and 1 January 2012		16,209	(75)	11,463	27,597	109,180	136,777
Loss for the period and total comprehensive loss for the period		–	–	(3,803)	(3,803)	(4,429)	(8,232)
At 31 May 2012		16,209	(75)	7,660	23,794	104,751	128,545
At 1 January 2011		9	–	(23)	(14)	–	(14)
Profit for the period and total comprehensive income for the period (unaudited)		–	–	8,101	8,101	–	8,101
Acquisition of a subsidiary	*28*	–	–	–	–	110,029	110,029
At 31 May 2011 (unaudited)		9	–	8,078	8,087	110,029	118,116

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Period from 7 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	2012
		RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax		(23)	12,541	8,447	(7,905)
Adjustments for:					
Interest income	5	–	(42)	(5)	(36)
Gain on disposal of items of property, plant and equipment	5	–	(5)	–	–
Gain on bargain purchase	5	–	(7,501)	(7,501)	–
Depreciation	6	–	62	7	279
Changes in fair value of investment properties	11	–	(3,000)	–	1,000
Recognition of prepaid land lease payments	6	–	212	63	108
		(23)	2,267	1,011	(6,554)
Increase in properties under development		–	(8,915)	–	(12,313)
Increase in trade receivables		–	–	–	(759)
Decrease in prepayments, deposits and other receivables		–	1,700	1,604	10,715
Increase in an amount due from a shareholder		–	(424)	–	(1,227)
Decrease/(increase) in amounts due from fellow subsidiaries		–	(3,858)	–	3,819
Decrease/(increase) in an amount due from a related company		–	(133)	–	133
Decrease/(increase) in restricted cash		–	3,798	–	(11)
Increase/(decrease) in trade payables		–	3,274	–	(12,385)
Increase/(decrease) in other payables and accruals		7	(41,597)	13,144	(16,011)
Increase/(decrease) in an amount due to a shareholder		15	(15)	7	–
Increase in amounts due to fellow subsidiaries		–	110,118	–	414
Increase in an amount due to a related company		–	–	–	5
Cash generated from/(used in) operations		(1)	66,215	15,766	(34,174)
Interest received		–	42	5	36

	Notes	Period from 7 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	Five months ended 31 May 2012
		RMB'000	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Net cash flows from/(used in) operating activities		(1)	66,257	15,771	(34,138)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment		–	(507)	–	(625)
Proceeds from disposal of items of property, plant and equipment		–	281	46	–
Acquisition of subsidiaries, net of cash acquired	*28*	–	(164,698)	(15,407)	–
Net cash flows used in investing activities		–	(164,924)	(15,361)	(625)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		9	16,200	–	–
Increase in an amount due to an intermediate holding company		–	92,760	–	–
Increase in an amount due to a fellow subsidiary		–	–	–	30,000
Net cash flows from financing activities		9	108,960	–	30,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		8	10,293	410	(4,763)
Cash and cash equivalents at beginning of year/period		–	8	8	10,226
Effect of foreign exchange rate changes, net		–	(75)	(393)	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		8	10,226	25	5,463
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	*22*	8	10,226	25	5,463

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2010 RMB'000	As at 31 December 2011 RMB'000	As at 31 May 2012 RMB'000
NON-CURRENT ASSETS				
Investments in subsidiaries	*14*	–	16,108	16,108
CURRENT ASSETS				
Prepayments, deposits and other receivables	*17*	–	5	5
Due from a shareholder	*19*	–	424	1,651
Due from fellow subsidiaries	*20*	–	10	39
Cash and bank balances	*22*	8	3,610	2,349
Total current assets		8	4,049	4,044
CURRENT LIABILITIES				
Other payables and accruals	*24*	7	8	8
Due to a shareholder	*19*	15	–	–
Due to fellow subsidiaries	*20*	–	4,083	4,079
Total current liabilities		22	4,091	4,087
NET CURRENT LIABILITIES		(14)	(42)	(43)
TOTAL ASSETS LESS CURRENT LIABILITIES		(14)	16,066	16,065
Net assets/(liabilities)		(14)	16,066	16,065
EQUITY				
Issued capital	*26*	9	16,209	16,209
Reserves	*27(b)*	(23)	(143)	(144)
Total equity/(deficiency in assets)		(14)	16,066	16,065

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Tianranju is a limited liability company incorporated in Hong Kong on 7 October 2010. The registered office of Tianranju is located at 28th Floor, The Sun's Group Centre, 200 Gloucester Road, Wanchai, Hong Kong.

The principal activities of Tianranju Group are property investment and property development.

In the opinion of the directors of Tianranju, Tianranju's ultimate holding company is 北京北大資產經營有限公司 (Peking University Asset Management Company Limited*) ("PKU Asset Management"), which is registered in the PRC.

Particulars of the subsidiaries of Tianranju as at 31 May 2012 are set out below:

Name	Place and date of registration	Nominal value of registered share capital	Percentage of equity interest attributable to Tianranju Direct	Indirect	Principal activities
Hubei Tianranju Business Management Limited ("Hubei Tianranju") *(note (a))*	PRC 21 May 1998	RMB30,000,000	100%	–	Property investment
昆山高科電子藝術創意產業發展有限公司 (Kunshan Hi-Tech Electronic Arts Creative Industry Development Company Limited*) ("Kunshan Hi-Tech") *(note (b))*	PRC 18 April 2008	RMB200,000,000	–	51%	Property development

Notes:

(a) The statutory financial statements of Hubei Tianranju for the year ended 31 December 2011 prepared under PRC generally accepted accounting principles ("PRC GAAP") were audited by 武漢德誠聯合會計師事務所 (Wuhan Decheng C.P.A Partnership*), certified public accountants registered in the PRC.

(b) The statutory financial statements of Kunshan Hi-Tech for the year ended 31 December 2011 prepared under PRC GAAP were audited by 亞太(集團)會計師事務所有限公司 (Asia Pacific Certified Public Accountants (Group) Company Limited*), certified public accountants registered in the PRC.

* *For identification purpose only*

2.1 BASIS OF PRESENTATION

The Financial Information incorporates the financial statements of Tianranju Group for the Relevant Periods and for the five months ended 31 May 2011. The financial statements of the subsidiaries are prepared for the same reporting period as Tianranju, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which Tianranju Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If Tianranju Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. Tianranju Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Notwithstanding that Tianranju Group and Tianranju had net current liabilities as at the end of each of the Relevant Periods, in the opinion of the directors of Tianranju, it is appropriate that the Financial Information has been prepared under the going concern basis because:

(i) on 5 July 2012, a one-year entrusted loan of RMB250,000,000 was provided to Tianranju Group by 北大資源集團有限公司 (Peking University Resource Group Company Limited*) ("PKU Resource"), a fellow subsidiary of Tianranju; and

(ii) PKU Resource has agreed to provide adequate financial support to Tianranju Group to meet its liabilities as and when they fall due.

** For identification purpose only*

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2012, together with the relevant transitional provisions, have been early adopted by Tianranju Group in the preparation of the Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Information.

The Financial Information has been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Tianranju Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 13	*Fair Value Measurement*[2]
Annual Improvements to HKFRSs 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12: *Transition Guidance*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: *Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect Tianranju Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. Tianranju Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of Tianranju Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. Tianranju Group expects to adopt HKFRS 10, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which Tianranju Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. Tianranju Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. Tianranju Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. Tianranju Group expects to adopt HKAS 19 (2011) from 1 January 2013.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. Tianranju Group expects to adopt the amendments from 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which Tianranju, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which Tianranju has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in Tianranju's profit or loss to the extent of dividends received and receivable. Tianranju's investments in subsidiaries are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by Tianranju Group, liabilities assumed by Tianranju Group to the former owners of the acquiree and the equity interests issued by Tianranju Group in exchange for control of the acquiree. For each business combination, Tianranju Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When Tianranju Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of Tianranju Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Tianranju Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Tianranju Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of Tianranju Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to Tianranju Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over Tianranju Group;

(ii) has significant influence over Tianranju Group; or

(iii) is a member of the key management personnel of Tianranju Group or of a parent of Tianranju Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and Tianranju Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and Tianranju Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either Tianranju Group or an entity related to Tianranju Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) 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).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, Tianranju Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	20%
Motor vehicles	16.7% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each of the Relevant Periods.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Tianranju Group is the lessor, assets leased by Tianranju Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where Tianranju Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Tianranju Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that Tianranju Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Tianranju Group's financial assets include cash and bank balances, trade and other receivables, deposits, and amounts due from a shareholder, fellow subsidiaries and a related company.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- Tianranju Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) Tianranju Group has transferred substantially all the risks and rewards of the asset, or (b) Tianranju Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Tianranju Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Tianranju Group's continuing involvement in the asset. In that case, Tianranju Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Tianranju Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Tianranju Group could be required to repay.

Impairment of financial assets

Tianranju Group assesses at the end of each of the Relevant Periods whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, Tianranju Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Tianranju Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Tianranju Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Tianranju Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

Tianranju Group's financial liabilities include trade and other payables, amounts due to an intermediate holding company, a shareholder, fellow subsidiaries, and a related company, and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by Tianranju Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, Tianranju Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of each of the Relevant Periods; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and building costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Tianranju Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which Tianranju Group operates.

Deferred tax is provided using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Tianranju Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The employees of Tianranju Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The Financial Information is presented in RMB. Each entity in Tianranju Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in Tianranju Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of Tianranju is the Hong Kong dollar. As at the end of each of the Relevant Periods, the assets and liabilities of Tianranju are translated into RMB at the exchange rates ruling at the end of each of the Relevant Periods and its profit or loss is translated into RMB at the weighted average exchange rates for the year. The functional currency of its subsidiaries is RMB, which is the same with Tianranju Group's presentation currency.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of Tianranju is translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of Tianranju which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of Tianranju Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each of the Relevant Periods. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying Tianranju Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Operating lease commitments – Tianranju Group as lessor

Tianranju Group has entered into commercial property leases on its investment property portfolio. Tianranju Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

Tianranju Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, Tianranju Group considers whether a property generates cash flows largely independently of the other assets held by Tianranju Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, Tianranju Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Classification between investment properties and properties held for sale and properties under development

Tianranju Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale or a property under development. In general, Tianranju Group considers its intention for holding the properties at the early development stage of the related properties. However, in response to the market demand for investment properties, Tianranju Group would from time to time amend the corporate strategies on Tianranju Group's property portfolio. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after their completion, whereas the properties are accounted for as investment properties under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

Tianranju Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires Tianranju Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 13 of section II.

Estimation of fair value of investment properties

Investment properties are carried in the statement of financial position at their fair values. The fair value was based on a valuation on the properties conducted by an independent firm of professionally qualified valuers using property valuation techniques which involve making assumptions on certain market conditions.

Favourable or unfavourable changes to these assumptions would result in changes in the fair values of Tianranju Group's investment properties and the corresponding adjustments to the gain or loss recognised in profit or loss.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 25 to the Financial Information.

Recognition and allocation of construction costs 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 the 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 Tianranju Group based on management's best estimate. When developing properties, Tianranju Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to different phases are allocated to individual phases based on saleable area. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

4. OPERATING SEGMENT INFORMATION

For management purposes, Tianranju Group is organised into business units based on their products and services. For the year ended 31 December 2010 and the five months ended 31 May 2011, no operating segment analysis is presented, as Tianranju Group has only one operating segment which is the property investment segment. For the year ended 31 December 2011 and the five months ended 31 May 2012, Tianranju Group has two reportable operating segments as follows:

(a) the property investment engages in the leasing of an office building; and

(b) the property development segment engages in the development and sale of properties.

Management monitors the results of Tianranju Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with Tianranju Group's profit/(loss) before tax except that interest income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude restricted cash, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2011

	Property investment *RMB'000*	Property development *RMB'000*	Total *RMB'000*
Segment revenue:			
Rental income from external customers	4,963	–	4,963
Segment results	14,311	(1,769)	12,542
Reconciliation:			
Interest income			42
Corporate and other unallocated expenses			(43)
Profit before tax			12,541
Segment assets	181,763	420,925	602,688
Reconciliation:			
Corporate and other unallocated assets			22,887
Total assets			625,575
Segment liabilities	11,432	174,890	186,322
Reconciliation:			
Corporate and other unallocated liabilities			302,476
Total liabilities			488,798
Other segment information:			
Depreciation and amortisation	227	47	274
Capital expenditure*	166,958	2,947	169,905

Five months ended 31 May 2012

	Property investment *RMB'000*	Property development *RMB'000*	Total *RMB'000*
Segment revenue:			
Rental income from external customers	2,543	–	2,543
Segment results	1,135	(9,074)	(7,939)
Reconciliation:			
Interest income			36
Corporate and other unallocated expenses			(2)
Profit before tax			(7,905)
Segment assets	169,352	434,798	604,150
Reconciliation:			
Corporate and other unallocated assets			15,543
Total assets			619,693
Segment liabilities	12,209	192,674	204,883
Reconciliation:			
Corporate and other unallocated liabilities			286,265
Total liabilities			491,148
Other segment information:			
Depreciation and amortisation	116	271	387
Capital expenditure*	–	625	625

* Capital expenditure consists of additions to property, plant and equipment, investment properties and prepaid land lease payments, including assets from the acquisition of a subsidiary.

Geographical information

During the Relevant Periods, Tianranju Group's revenue from external customers is derived solely from its operations in Mainland China, and all non-current assets of Tianranju Group are located in Mainland China.

Information about a major customer

Revenue of approximately RMB1,104,000, RMB334,000 and RMB587,000 was derived from rental income received from a single external customer during the year ended 31 December 2011 and the five months ended 31 May 2011 and 2012, respectively.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also Tianranju Group's turnover, represents the gross rental income received and receivable from investment properties during the Relevant Periods and the five months ended 31 May 2011.

An analysis of Tianranju Group's revenue, other income and gains is as follows:

	Note	Period from 7 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	
				2011	2012
		RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Revenue					
Gross rental income		–	4,963	1,470	2,543
Other income					
Bank interest income		–	42	5	36
Others		–	2	–	2
		–	44	5	38
Gains					
Gain on disposal of items of property, plant and equipment		–	5	–	–
Gain on bargain purchase	*28(a)*	–	7,501	7,501	–
Others		–	5	–	2
		–	7,511	7,501	2
		–	7,555	7,506	40

6. PROFIT/(LOSS) BEFORE TAX

Tianranju Group's profit/(loss) before tax is arrived at after charging:

	Notes	Period from 7 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	Five months ended 31 May 2012
		RMB'000	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Depreciation	*10*	–	62	7	279
Minimum lease payments under operating leases of land and buildings		–	58	2	128
Amortisation of land lease payments	*12*	–	212	63	108
Auditors' remuneration		–	15	6	3
Employee benefit expense:					
Wages and salaries		–	330	–	1,898
Pension scheme contributions*		–	38	–	211
		–	368	–	2,109
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		–	807	453	270

* At 31 December 2010 and 2011 and 31 May 2012, Tianranju Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

7. DIRECTORS' REMUNERATION

No director received any fee or emolument in respect of their services rendered to Tianranju Group during the Relevant Periods and the five months ended 31 May 2011.

8. INCOME TAX

	Period from 7 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	Five months ended 31 May 2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Tianranju Group:				
Deferred *(note 25)*	–	1,904	346	327

Hong Kong profits tax

No Hong Kong profits tax has been provided because Tianranju Group did not have any assessable profits arising in Hong Kong during the Relevant Periods and the five months ended 31 May 2011.

PRC corporate income tax

The PRC corporate income tax in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits arising in Mainland China, based on the existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which Tianranju and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Tianranju Group – Period from 7 October 2010 (date of incorporation) to 31 December 2010

	Hong Kong
	RMB'000
Loss before tax	(23)
Tax at the statutory tax rate	(4)
Tax losses not recognised	4
Tax charge at Tianranju Group's effective rate	–

Tianranju Group – Year ended 31 December 2011

	Hong Kong	**Mainland China**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	7,457	5,084	12,541
Tax at the statutory tax rate	1,230	1,271	2,501
Income not subject to tax	(1,237)	–	(1,237)
Expenses not deductible for tax	–	223	223
Tax losses not recognised	7	410	417
Tax charge at Tianranju Group's effective rate	–	1,904	1,904

Tianranju Group – Five months ended 31 May 2012

	Hong Kong	Mainland China	Total
	RMB'000	*RMB'000*	*RMB'000*
Loss before tax	(2)	(7,903)	(7,905)
Tax at the statutory tax rate	–	(1,976)	(1,976)
Income not subject to tax	–	1,050	1,050
Expenses not deductible for tax	–	1,253	1,253
Tax charge at Tianranju Group's effective rate	–	327	327

Tianranju Group – Five months ended 31 May 2011 (unaudited)

	Hong Kong	Mainland China	Total
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	7,501	946	8,447
Tax at the statutory tax rate	1,238	236	1,474
Income not subject to tax	(1,238)	–	(1,238)
Tax losses not recognised	–	110	110
Tax charge at Tianranju Group's effective rate	–	346	346

9. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

10. PROPERTY, PLANT AND EQUIPMENT

Tianranju Group

	Furniture, Fixtures and office equipment *RMB'000*	**Motor vehicles** *RMB'000*	**Total** *RMB'000*
At 7 October 2010, 31 December 2010 and 1 January 2011, net of accumulated depreciation	–	–	–
Additions	101	406	507
Acquisition of subsidiaries *(note 28)*	1,408	1,110	2,518
Depreciation provided during the year	(26)	(36)	(62)
Disposals	–	(276)	(276)
At 31 December 2011 and 1 January 2012 net of accumulated depreciation	1,483	1,204	2,687
Additions	98	527	625
Depreciation provided during the period	(146)	(133)	(279)
Disposals	–	–	–
At 31 May 2012, net of accumulated depreciation	1,435	1,598	3,033
At 31 December 2011:			
Cost	1,509	1,232	2,741
Accumulated depreciation	(26)	(28)	(54)
Net carrying amount	1,483	1,204	2,687
At 31 May 2012:			
Cost	1,607	1,759	3,366
Accumulated depreciation	(172)	(161)	(333)
Net carrying amount	1,435	1,598	3,033

11. INVESTMENT PROPERTIES

Tianranju Group

	As at 31 December		**As at 31 May**
	2010 *RMB'000*	**2011** *RMB'000*	**2012** *RMB'000*
Carrying amount at beginning of the period/year	–	–	160,480
Acquisition of a subsidiary *(note 28(a))*	–	157,480	–
Net gain from a fair value adjustment	–	3,000	(1,000)
Carrying amount at end of the period/year	–	160,480	159,480

Tianranju Group's investment properties are situated in Mainland China and are held under medium term leases.

Tianranju Group's investment properties were revalued on 31 December 2011 and 31 May 2012 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at RMB160,480,000 and RMB 159,480,000, respectively, on an investment value basis in their existing states. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 30(a) to the Financial Information.

At 31 December 2011, certain of Tianranju Group's investment properties with a carrying value of RMB160,000,000 were pledged to secure banking facilities granted to certain subsidiaries of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), an intermediate holding company of Tianranju. This pledge was released during the five months ended 31 May 2012.

* *For identification purpose only*

12. PREPAID LAND LEASE PAYMENTS

Tianranju Group

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at beginning of the period/year	–	–	9,188
Acquisition of a subsidiary *(note 28(a))*	–	9,400	–
Recognised during the year/period	–	(212)	(108)
Carrying amount at end of the period/year	–	9,188	9,080
Current portion included in prepayments, deposits and other receivables	–	(256)	(256)
Non-current portion	–	8,932	8,824

The leasehold land is situated in Mainland China and is held under a medium term lease.

13. GOODWILL

Tianranju Group

	RMB'000
Cost at 7 October 2010, 31 December 2010 and 1 January 2011, net of accumulated impairment	–
Acquisition of a subsidiary *(note 28(b))*	38,121
Cost and net carrying amount at 31 December 2011 and 31 May 2012	38,121
At 31 December 2011 and 31 May 2012:	
Cost	38,121
Accumulated impairment	–
Net carrying amount	38,121

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the property development cash-generating unit for impairment testing.

The recoverable amount of the property development cash-generating unit has been determined based on a value in use calculation using a cash flow projection based on a financial budget covering a seven-year period approved by senior management, which is equal to the development period of Phase I of the project under the development of the property development unit according to the property development plan. The discount rates applied to the cash flow projection as at 31 December 2011 and 31 May 2012 were 12.5% and 13.0%, respectively. The pre-sale of part of Phase I of the project under the development of the property development unit has been commenced in March 2012 and no revenue is expected to be generated after the aforesaid seven-year period.

Key assumptions were used in the value in use calculation of the property development cash-generating unit for 31 December 2011 and 31 May 2012. The following describes each key assumption on which management has based its cash flow projection to undertake impairment testing of goodwill: i) budgeted gross margin was determined based on management's expectation on market development; and ii) the discount rate used is after tax and reflects specific risks relating to the property development unit. The values assigned to the key assumptions on market development of property development unit and discount rates are determined with reference to external information sources, such as published information for comparable companies, e.g. listed companies in real estate development industry located and mainly operated in Mainland China.

14. INVESTMENTS IN SUBSIDIARIES

Tianranju

	As at 31 December		**As at 31 May**
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted shares, at cost	–	16,108	16,108

Particulars of Tianranju's subsidiaries as at 31 December 2011 and 31 May 2012 are set out in note 1 of this section.

15. PROPERTIES UNDER DEVELOPMENT

Tianranju Group

	As at 31 December		**As at 31 May**
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Properties under development expected to be completed within normal operating cycle and recovered after more than one year	–	373,525	385,838

Tianranju Group's properties under development are located in Mainland China.

At 31 May 2012, Tianranju Group's properties under development with a carrying value of approximately RMB385,838,000 were pledged to secure an entrusted loan of RMB250,000,000 granted by PKU Resource, a fellow subsidiary of Tianranju.

16. TRADE RECEIVABLES

Trade receivables mainly consist of rental receivables under operating leases. Payment terms of the operating leases are stipulated in the relevant lease agreements. An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

Tianranju Group

	As at 31 December		As at 31 May
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	–	759

All of Tianranju Group's trade receivables are not considered to be impaired. Tianranju Group's trade receivables relate to a large number of diversified customers. Based on past experience, the directors of Tianranju are of the opinion that no provision for impairment is necessary in respect of these balances as there was no recent history of default and the balances are still considered fully recoverable.

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Tianranju Group			Tianranju		
	As at 31 December		As at 31 May	As at 31 December		As at 31 May
	2010	2011	2012	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments	–	4,070	6,688	–	–	–
Deposits and other receivables	–	14,554	1,221	–	5	5
Current portion of prepaid land lease payments *(note 12)*	–	256	256	–	–	–
	–	18,880	8,165	–	5	5

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

18. DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount due to an intermediate holding company is unsecured, interest-free and has no fixed terms of repayment.

19. BALANCES WITH A SHAREHOLDER

The balances with a shareholder are unsecured, interest-free and have no fixed terms of repayment.

20. BALANCES WITH FELLOW SUBSIDIARIES

The balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

21. BALANCES WITH A RELATED COMPANY

Tianranju Group

Name	Note	As at 31 December 2010 RMB'000	As at 31 December 2011 RMB'000	As at 31 May 2012 RMB'000
China Hi-Tech Group Company Limited ("China Hi-Tech")	*(i)*	–	133	(5)

Note:

(i) China Hi-Tech was owned 24.37% by Peking Founder, Tianranju Group's intermediate holding company, as at 31 December 2011 and 31 May 2012.

The balances with a related company are unsecured, interest-free and have no fixed terms of repayment.

22. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

		Tianranju Group			Tianranju		
	Notes	As at 31 December 2010	As at 31 December 2011	As at 31 May 2012	As at 31 December 2010	As at 31 December 2011	As at 31 May 2012
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	*(a)*	8	18,535	13,783	8	3,610	2,349
Less: restricted cash	*(b)*	–	(8,309)	(8,320)	–	–	–
Cash and cash equivalents		8	10,226	5,463	8	3,610	2,349

Notes:

(a) The cash and bank balances of Tianranju Group are denominated in RMB amounted to approximately nil, RMB14,925,000 and RMB11,434,000 as at 31 December 2010 and 2011 and 31 May 2012, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, Tianranju Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(b) Pursuant to relevant regulations in the PRC, Tianranju Group is required to place certain amounts at designated bank accounts as guarantee deposits for the construction of the relevant properties. As at 31 December 2011 and 31 May 2012, such guarantee deposits amounted to approximately RMB8,309,000 and RMB8,320,000, respectively.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE PAYABLES

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

Tianranju Group

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Within one year or on demand	–	60,751	48,366

The trade payables are non-interest-bearing and are normally settled on terms of three to six months.

24. OTHER PAYABLES AND ACCRUALS

	Tianranju Group			Tianranju		
	As at 31 December		As at 31 May	As at 31 December		As at 31 May
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Advances from customers	–	1,014	3,697	–	–	–
Other payables and accruals	7	199,366	180,672	7	8	8
	7	200,380	184,369	7	8	8

Other payables are non-interest-bearing and have an average term of three months to one year.

25. DEFERRED TAX

The movements in deferred tax liabilities during the Relevant Periods are as follows:

Deferred tax liabilities

Tianranju Group

	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from acquisition of subsidiaries	Revaluation of properties	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 7 October 2010, 31 December 2010 and 1 January 2011	–	–	–	–
Deferred tax charged to profit or loss during the year *(note 8)*	1,154	–	750	1,904
Acquisition of subsidiaries *(note 28)*	5,741	14,415	2,729	22,885
At 31 December 2011 and 1 January 2012	6,895	14,415	3,479	24,789
Deferred tax charged/(credited) to profit or loss during the period *(note 8)*	577	–	(250)	327
At 31 May 2012	7,472	14,415	3,229	25,116

Deferred tax assets have not been recognised in respect of the following item:

	Tianranju Group			Tianranju		
	As at 31 December		As at 31 May	As at 31 December		As at 31 May
	2010	2011	2012	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Tax losses	–	16,693	21,706	–	–	–

The above tax losses arising in Mainland China will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by Tianranju to its shareholder.

26. ISSUED CAPITAL

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Authorised:			
100,000,000 (2011:100,000,000; 2010: 10,000) ordinary shares of HK$1 each	9	81,773	81,773
Issued and fully paid:			
19,822,000 (2011: 19,822,000; 2010: 10,000) ordinary shares of HK$1 each	9	16,209	16,209

During the Relevant Periods, the movements in share capital were as follows:

(a) On 7 October 2010 (date of incorporation), 10,000 ordinary shares were issued at par.

(b) Pursuant to an ordinary resolution passed on 19 December 2011, the authorised share capital of Tianranju was increased from HK$10,000 (equivalent to approximately RMB9,000) to HK$100,000,000 (equivalent to approximately RMB81,773,000) by the creation of 99,990,000 additional shares of HK$1 each, ranking pari passu in all respects with the existing shares of Tianranju.

(c) On 20 December 2011, 19,812,000 ordinary shares of HK$1 each were issued at par to the existing shareholder of the Company, which resulted in proceeds of HK$19,812,000 (equivalent to approximately RMB16,200,000). The purpose of the issue was to provide additional working capital for Tianranju.

A summary of the transactions during the Relevant Periods with reference to the above movements in Tianranju's issued capital is as follows:

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Issued and fully paid			
At beginning of the year/period	–	9	16,209
Issue of shares	9	16,200	–
At end of the year/period	9	16,209	16,209

27. RESERVES

(a) Tianranju Group

The amounts of Tianranju Group's reserves and the movements therein for the Relevant Periods and the five months ended 31 May 2011 are presented in the consolidated statements of changes in equity in Section I of the Financial Information.

(b) Tianranju

	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 7 October 2010	–	–	–
Loss for the period and total comprehensive loss for the period	–	(23)	(23)
At 31 December 2010 and 1 January 2011	–	(23)	(23)
Loss for the year	–	(45)	(45)
Other comprehensive loss for the year:			
Exchange differences on translation of foreign operations	(75)	–	(75)
Total comprehensive loss for the year	(75)	(45)	(120)
At 31 December 2011 and 1 January 2012	(75)	(68)	(143)
Loss for the period and total comprehensive loss for the period	–	(1)	(1)
At 31 May 2012	(75)	(69)	(144)

28. BUSINESS COMBINATION

(a) In March 2011, Tianranju acquired 100% equity interest in Hubei Tianranju at a cash consideration of RMB16,108,000. Hubei Tianranju is engaged in property investment.

The fair values of the identifiable assets and liabilities of Hubei Tianranju as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition
		RMB'000
Property, plant and equipment	*10*	78
Investment properties	*11*	157,480
Prepaid land lease payments	*12*	9,400
Cash and cash equivalents		701
Prepayments, deposits and other receivables		13,642
Accruals and other payables		(148,410)
Deferred tax liabilities	*25*	(9,282)
Total identifiable net assets at fair value		23,609
Gain on bargain purchase recognised in other income and gains in profit or loss	*5*	(7,501)
Satisfied by cash		16,108

The gain on bargain purchase was mainly due to the fact that the purchase consideration was mutually agreed based on a discount to the total fair value of the identifiable assets and liabilities of Hubei Tianranju measured at the date of acquisition.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(16,108)
Cash and cash equivalents acquired	701
Net outflow of cash and cash equivalents included in cash flows from investing activities	(15,407)

Since the acquisition, Hubei Tianranju contributed RMB4,963,000 to Tianranju Group's turnover and RMB4,967,000 to the consolidated profit for the year ended 31 December 2011.

(b) In November 2011, Hubei Tianranju acquired 51% equity interest in Kunshan Hi-Tech from China Hi-Tech at a cash consideration of approximately RMB152,641,000. Kunshan Hi-Tech is engaged in property development.

Tianranju Group has elected to measure the non-controlling interests in Kunshan Hi-Tech at the non-controlling interests' proportionate share of Kunshan Hi-Tech's identifiable net assets.

The fair values of the identifiable assets and liabilities of Kunshan Hi-Tech as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *RMB'000*
Property, plant and equipment	*10*	2,440
Properties under development		364,610
Restricted cash		12,107
Cash and cash equivalents		3,350
Prepayments, deposits and other receivables		6,682
Trade payables		(57,477)
Accruals and other payables		(93,560)
Deferred tax liabilities	*25*	(13,603)
Total identifiable net assets at fair value		224,549
Non-controlling interests		(110,029)
Goodwill on acquisition	*13*	38,121
Satisfied by cash		152,641

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(152,641)
Cash and cash equivalents acquired	3,350
Net outflow of cash and cash equivalents included in cash flows from investing activities	(149,291)

Since the acquisition, Kunshan Hi-Tech did not generate any revenue and contributed a net loss of RMB1,733,000 to Tianranju Group's consolidated profit for the year ended 31 December 2011.

29. CONTINGENT LIABILITIES

Tianranju Group had the following contingent liabilities not provided for as at the end of each of the Relevant Periods:

(i) As at 31 May 2012 Tianranju Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers, related to the pre-sales of Tianranju Group's properties as at 31 May 2012. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, Tianranju Group is responsible for repaying the outstanding mortgage principal together with the accrued interest and penalty owed by the defaulted purchasers to the banks and Tianranju Group is entitled to take over the legal title and possession of the related properties. Tianranju Group's guarantee period starts from the date of grant of the relevant mortgage loans and ends upon issuance of real estate ownership certificates which will generally be available within a certain period after the purchasers take possession of the relevant properties.

The fair value of the guarantees is not significant and the directors of Tianranju consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principal together with the accrued interest and penalty, and therefore no provision has been made in the Financial Information for the guarantees.

(ii) As at 31 December 2011 Tianranju Group provided guarantees to banks in favour of certain subsidiaries of Peking Founder for banking facilities, totalling RMB200,000,000, given to these related parties. Further details are included in notes 32(b)(ii) to 32(b)(iii) below.

Tianranju has no contingent liability as at the end of each of the Relevant Periods.

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

Tianranju Group leases its investment properties (note 11 to the Financial Information) under operating lease arrangements, with leases negotiated for terms ranging from one to six years. The terms of the leases generally also require the tenants to pay security deposits.

At the end of each of the Relevant Periods, Tianranju Group had total future minimum lease receivables (before charging business tax and surcharges) under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	6,292	5,915
In the second to fifth years, inclusive	–	11,732	10,103
After five years	–	1,058	583
	–	19,082	16,601

(b) As lessee

Tianranju Group leases certain of its office properties and sales offices under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At the end of each of the Relevant Periods, Tianranju Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	–	400	406
In the second to fifth years, inclusive	–	533	400
	–	933	806

Tianranju has no lease commitments as at the end of each of the Relevant Periods.

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, Tianranju Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for:			
Properties under development	–	161,172	151,735

Tianranju has no commitment as at the end of each of the Relevant Periods.

32. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in the Financial Information, Tianranju Group had the following transaction with a related party during the Relevant Periods and the five months ended 31 May 2011:

	Period from 7 October 2010 (date of incorporation) to 31 December	Year ended 31 December	Five-month period ended 31 May	
	2010	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Provision of management services from PKU Resource Property	–	80	–	625

The transaction was carried out in accordance with the terms and conditions mutually agreed by both parties.

(b) Other transactions with related parties:

(i) In November 2011, Tianranju Group acquired 51% equity interest in Kunshan Hi-Tech from China Hi-Tech for a cash consideration of approximately RMB152,641,000. Further details of the acquisition are included in note 28(b) above.

(ii) During the year ended 31 December 2011, Tianranju Group provided a guarantee and also pledged certain of its investment properties with a carrying amount of RMB160,000,000 to a bank in favour of certain subsidiaries of Peking Founder for banking facilities granted to these fellow subsidiaries of RMB150,000,000, which are utilised to the extent of RMB150,000,000 at 31 December 2011. The guarantee and the pledge were released during the five months ended 31 May 2012. Further details of the transactions are included in note 11 above.

(iii) During the year ended 31 December 2011, Tianranju Group provided a guarantee to a bank in favour of a subsidiary of Peking Founder for banking facilities of RMB50,000,000, which are utilised to the extent of RMB50,000,000 at 31 December 2011. The guarantee was released during the five months ended 31 May 2012.

(iv) On 6 May 2012, Tianranju Group entered into a loan agreement with PKU Resource, pursuant to which PKU Resource would provide a one-year loan of RMB250,000,000 through a financial institution to Tianranju Group. The loan was secured by the properties under development of Tianranju Group with a carrying amount of approximately RMB385,838,000 as at 31 May 2012 as disclosed in note 15 above and interesting-bearing at the interest rate at 12.5% per annum and to be paid semi annually. The loan was subsequently received by Tianranju Group on 5 July 2012.

(c) Outstanding balances with related parties:

Details of Tianranju Group's balances with an intermediate holding company, a shareholder, fellow subsidiaries and a related company as at 31 December 2010 and 2011 and 31 May 2012 are disclosed in notes 18, 19, 20 and 21 to the Financial Information.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Tianranju Group

Financial assets – Loans and receivables

	As at 31 December		**As at 31 May**
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	–	–	759
Financial assets included in prepayments, deposits and other receivables	–	13,673	853
Due from a shareholder	–	424	1,651
Due from fellow subsidiaries	–	3,858	39
Due from a related company	–	133	–
Restricted cash		8,309	8,320
Cash and cash equivalents	8	10,226	5,463
	8	36,623	17,085

Financial liabilities – Financial liabilities at amortised cost

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	–	60,751	48,366
Financial liabilities included in other payables and accruals	7	197,899	179,443
Due to an intermediate holding company	–	92,760	92,760
Due to a shareholder	15	–	–
Due to fellow subsidiaries	–	110,118	140,532
Due to a related company	–	–	5
	22	461,528	461,106

Tianranju

Financial assets – Loans and receivables

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets included in prepayments, deposits and other receivables	–	5	5
Due from a shareholder	–	424	1,651
Due from fellow subsidiaries	–	10	39
Cash and bank balances	8	3,610	2,349
	8	4,049	4,044

Financial liabilities – Financial liabilities at amortised cost

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	7	8	8
Due to a shareholder	15	–	–
Due to fellow subsidiaries	–	4,083	4,079
	22	4,091	4,087

34. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of Tianranju Group's financial instruments and Tianranju's financial instruments are equal to the carrying amounts of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank balances, restricted cash, trade receivables, trade payables, amounts due from related parties, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

Tianranju Group and Tianranju did not have any financial instruments measured at fair value at the end of each of the Relevant Periods.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Tianranju Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for Tianranju Group's operations. Tianranju Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the Relevant Periods under review, Tianranju Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from Tianranju Group's financial instruments are credit risk and liquidity risk. The directors of Tianranju review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The credit risk of Tianranju Group's other financial assets, which comprise cash and cash equivalents, trade receivables, deposits, other receivables and amounts due from related parties arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

Tianranju Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

Tianranju Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings.

The maturity profile of Tianranju Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Tianranju Group

	Within one year or on demand		
	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	–	60,751	48,366
Financial liabilities included in other payables and accruals	7	197,899	179,443
Due to an intermediate holding company	–	92,760	92,760
Due to a shareholder	15	–	–
Due to fellow subsidiaries	–	110,118	140,532
Due to a related company	–	–	5
Mortgage guarantee	–	–	1,330
Guarantees given to banks in favour of related parties	–	200,000	–
	22	661,528	462,436

The maturity profile of Tianranju's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Tianranju

	Within one year or on demand		
	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	7	8	8
Due to a shareholder	15	–	–
Due to fellow subsidiaries	–	4,083	4,079
	22	4,091	4,087

Capital management

The primary objectives of Tianranju Group's capital management are to safeguard Tianranju Group's ability to continue as a going concern.

Tianranju Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Tianranju Group is not subject to any externally imposed capital requirements.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Tianranju Group or its subsidiaries in respect of any period subsequent to 31 May 2012.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

ERNST & YOUNG
安 永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

16 November 2012

The Directors
EC-Founder (Holdings) Company Limited

Dear Sirs,

We set out below our report on the financial information of Tianhe Property Development Limited ("Tianhe Property") and its subsidiary (hereinafter collectively referred to as "Tianhe Property Group") comprising the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of Tianhe Property Group for each of the years ended 31 December 2009, 2010 and 2011 and the five months ended 31 May 2012 (the "Relevant Periods"), and the consolidated statements of financial position of Tianhe Property Group and the statements of financial position of Tianhe Property as at 31 December 2009, 2010 and 2011 and 31 May 2012, together with the notes thereto (the "Financial Information"), and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of Tianhe Property Group for the five months ended 31 May 2011 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the shareholders' circular of EC-Founder (Holdings) Company Limited (the "Company") dated 16 November 2012 (the "Circular") in connection with the proposed acquisition of Hong Kong Tianranju Holdings Limited and Hong Kong Tianhe Holdings Limited.

Tianhe Property was established as a limited liability company on 28 May 2001 in the People's Republic of China (the "PRC") and is under the direct supervision of Hong Kong Tianhe Holdings Limited, a related company of the Company. Tianhe Property Group is principally engaged in property development in the PRC. Details of the activity of the companies comprising Tianhe Property Group are set out in note 1 of Section II below.

As at 31 May 2012, Tianhe Property had direct interest in the subsidiary as set out in note 1 of Section II below. Both companies now comprising Tianhe Property Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising Tianhe Property Group were prepared in accordance with the relevant accounting principles applicable to these companies in the country in which they were established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of Tianhe Property (the "Directors") have prepared the consolidated financial statements of Tianhe Property Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2009, 2010 and 2011, and the five months ended 31 May 2012 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

BASIS FOR ADVERSE OPINION

As further explained in note 2.2 of Section II below, the books and records of two subsidiaries, namely 武漢楚天時代創業投資擔保有限公司 (for identification purpose, Wuhan Chutian Era Venture & Guarantee Company Limited) ("Chutian Era") and 武漢宏博投資有限公司 (for identification purposes, Wuhan Hongbo Investment Company Limited) ("Hongbo"), which had been disposed of on 29 May 2012 and 24 November 2010, respectively, had not been retained by Tianhe Property Group. Due to the insufficiency of accounting information of these two subsidiaries, the financial position, results, and cash flows of these two subsidiaries have not been consolidated in the Financial Information of Tianhe Property Group from the date of acquisition to their respective date of disposal. Accordingly, the investments in these two subsidiaries were carried at cost less impairment and included in the consolidated statements of financial position of Tianhe Property Group at an aggregate carrying amount of RMB57,000,000, RMB50,000,000, and RMB50,000,000 as at 31 December 2009, 2010 and 2011, respectively.

The exclusion of the financial position, results, and cash flows of these two subsidiaries in the Financial Information of Tianhe Property Group is a departure from the requirement of Hong Kong Accounting Standard ("HKAS") 27 (Revised) *Consolidated and Separate Financial Statements*. As a consequence, the Financial Information does not give all the information required about the economic activities of Tianhe Property Group from 1 January 2009 to the respective date of disposal of these two subsidiaries, and the resulting gain or loss on disposal upon the disposal of these two subsidiaries. Any adjustments that would be required may have a consequential significant effect on the consolidated financial position of Tianhe Property Group as at 31 December 2009, 2010 and 2011 and the consolidated results and cash flows of Tianhe Property Group for each of the Relevant Periods and for the five months ended 31 May 2011. It is not practicable to quantify the effects of the departure from this requirement.

ADVERSE OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF TIANHE PROPERTY GROUP FOR THE YEARS ENDED 31 DECEMBER 2009, 2010 AND 2011 AND CONSOLIDATED RESULTS AND CASH FLOWS FOR THE FIVE MONTHS ENDED 31 MAY 2012

In our opinion, because of the significance of the matter described in the basis for adverse opinion paragraph, the Financial Information does not give a true and fair view of the state of affairs of Tianhe Property Group as at 31 December 2009, 2010 and 2011, and of the consolidated results and cash flows of Tianhe Property Group for each of the Relevant Periods.

OPINION ON THE FINANCIAL POSITION OF TIANHE PROPERTY GROUP AS AT 31 MAY 2012 AND OF TIANHE PROPERTY AS AT 31 DECEMBER 2009, 2010 AND 2011 AND 31 MAY 2012

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of Tianhe Property Group as at 31 May 2012 and of Tianhe Property as at 31 December 2009, 2010 and 2011 and 31 May 2012.

ADVERSE REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, because of the significance of the matter described in the basis for adverse opinion paragraph, the Interim Comparative Information is not prepared, in all material respects, in accordance with the basis of presentation set out in note 2.1 of Section II below.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December			Five months ended 31 May	
	Notes	**2009**	**2010**	**2011**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Other income and gains	*5*	850	1,032	1,090	460	538
Selling and distribution costs		–	–	–	–	–
Administrative expenses		(231)	(138)	(3,945)	(1,868)	(1,660)
Other operating expenses, net		–	–	(2)	(2)	–
Finance costs	*7*	(567)	(1,583)	–	–	–
PROFIT/(LOSS) BEFORE TAX	*6*	52	(689)	(2,857)	(1,410)	(1,122)
Income tax expenses	*9*	–	–	–	–	–
PROFIT/(LOSS) FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		52	(689)	(2,857)	(1,410)	(1,122)
Attributable to:						
Owners of the parent		52	(689)	(2,857)	(1,410)	(1,122)
Non-controlling interests		–	–	–	–	–

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2009 RMB'000	As at 31 December 2010 RMB'000	As at 31 December 2011 RMB'000	As at 31 May 2012 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	*11*	50	40	217	502
Investments in subsidiaries	*12*	57,000	50,000	50,000	–
Total non-current assets		57,050	50,040	50,217	502
CURRENT ASSETS					
Properties under development	*13*	127,704	131,811	135,909	138,004
Deposits and other receivables		225,586	213,815	292	195
Due from shareholders	*14*	21,490	13,690	–	–
Due from fellow subsidiaries	*15*	10,343	9,343	105,765	105,765
Due from a related company	*16*	–	–	21,209	21,701
Cash and bank balances	*17*	126	1,393	8,685	3,199
Total current assets		385,249	370,052	271,860	268,864
CURRENT LIABILITIES					
Other payables and accruals		143,323	170,552	89,242	37,653
Due to shareholders	*14*	62,595	13,848	–	–
Total current liabilities		205,918	184,400	89,242	37,653
NET CURRENT ASSETS		179,331	185,652	182,618	231,211
TOTAL ASSETS LESS CURRENT LIABILITIES		236,381	235,692	232,835	231,713
Net assets		236,381	235,692	232,835	231,713
EQUITY					
Equity attributable to owners of the parent					
Issued capital	*18*	300,000	300,000	300,000	300,000
Reserves	*19(a)*	(66,913)	(67,602)	(70,459)	(71,581)
		233,087	232,398	229,541	228,419
Non-controlling interests		3,294	3,294	3,294	3,294
Total equity		236,381	235,692	232,835	231,713

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the parent					
		Issued capital	General reserve	Accumulated losses	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009		300,000	151	(67,116)	233,035	–	233,035
Profit for the year and total comprehensive income for the year		–	–	52	52	–	52
Acquisitions of a subsidiary	*20*	–	–	–	–	3,294	3,294
At 31 December 2009 and 1 January 2010		300,000	151	(67,064)	233,087	3,294	236,381
Loss for the year and total comprehensive loss for the year		–	–	(689)	(689)	–	(689)
At 31 December 2010 and 1 January 2011		300,000	151	(67,753)	232,398	3,294	235,692
Loss for the year and total comprehensive loss for the year		–	–	(2,857)	(2,857)	–	(2,857)
At 31 December 2011 and 1 January 2012		300,000	151	(70,610)	229,541	3,294	232,835
Loss for the period and total comprehensive loss for the period		–	–	(1,122)	(1,122)	–	(1,122)
At 31 May 2012		300,000	151	(71,732)	228,419	3,294	231,713
At 1 January 2011		300,000	151	(67,753)	232,398	3,294	235,692
Loss for the period and total comprehensive loss for the period (unaudited)		–	–	(1,410)	(1,410)	–	(1,410)
At 31 May 2011 (unaudited)		300,000	151	(69,163)	230,988	3,294	234,282

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December			Five months ended 31 May	
	Notes	**2009**	**2010**	**2011**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		52	(689)	(2,857)	(1,410)	(1,122)
Adjustments for:						
Finance costs	7	567	1,583	–	–	–
Interest income	5	(839)	(1,032)	(1,085)	(457)	(500)
Gain on disposal of items of property, plant and equipment	5	(11)	–	–	–	(36)
Depreciation	6	63	14	17	3	28
		(168)	(124)	(3,925)	(1,864)	(1,630)
Increase in properties under development		(1,931)	(4,107)	(4,098)	(1,263)	(2,095)
Decrease/(increase) in deposits and other receivables		(6,469)	11,771	213,523	2,886	97
Decrease/(increase) in amounts due from shareholders		(12,450)	7,800	13,690	13,690	–
Decrease/(increase) in amounts due from fellow subsidiaries		(8,143)	1,000	(96,422)	9,343	–
Increase in an amount due from a related company		–	–	(21,209)	(20,636)	(492)
Increase/(decrease) in other payables and accruals		5,873	38,019	(78,302)	13,612	(49,981)
Decrease in amounts due to shareholders		(1,245)	(13,747)	(13,848)	(13,848)	–
Cash generated from/(used in) operations		(24,533)	40,612	9,409	1,920	(54,101)
Interest received		839	1,032	1,085	457	500
Net cash flows from/(used in) operating activities		(23,694)	41,644	10,494	2,377	(53,601)

	Notes	Year ended 31 December 2009 RMB'000	2010 RMB'000	2011 RMB'000	Five months ended 31 May 2011 RMB'000 (Unaudited)	2012 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment	11	(15)	(4)	(194)	(8)	(323)
Proceeds from disposal of items of property, plant and equipment		66	–	–	–	46
Acquisition of a subsidiary	20	(11,628)	(10,790)	(3,008)	(1,927)	(1,608)
Disposal of a subsidiary	12	–	7,000	–	–	50,000
Net cash flows from/(used in) investing activities		(11,577)	(3,794)	(3,202)	(1,935)	48,115
CASH FLOWS FROM FINANCING ACTIVITIES						
Increase/(decrease) in amounts due to shareholders		35,000	(35,000)	–	–	–
Interest paid		(567)	(1,583)	–	–	–
Net cash flows from/(used in) financing activities		34,433	(36,583)	–	–	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(838)	1,267	7,292	442	(5,486)
Cash and cash equivalents at beginning of year/period		964	126	1,393	1,393	8,685
CASH AND CASH EQUIVALENTS AT END OF YEAR		126	1,393	8,685	1,835	3,199
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	17	126	1,393	8,685	1,835	3,199

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2009	2010	2011	As at 31 May 2012
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	11	50	40	217	502
Investments in subsidiaries	12	119,595	112,595	112,595	62,595
Total non-current assets		119,645	112,635	112,812	63,097
CURRENT ASSETS					
Properties under development	13	61,782	65,267	68,553	70,344
Deposits and other receivables		225,586	213,822	1,614	1,898
Due from shareholders	14	21,490	13,690	–	–
Due from fellow subsidiaries	15	10,343	9,343	105,765	105,765
Due from a related company	16	–	–	21,209	21,701
Cash and bank balances	17	126	1,393	8,665	3,166
Total current assets		319,327	303,515	205,806	202,874
CURRENT LIABILITIES					
Other payables and accruals		143,287	169,891	89,059	37,532
Due to shareholders	14	62,595	13,848	–	–
Total current liabilities		205,882	183,739	89,059	37,532
NET CURRENT ASSETS		113,445	119,776	116,747	165,342
TOTAL ASSETS LESS CURRENT LIABILITIES		233,090	232,411	229,559	228,439
Net assets		233,090	232,411	229,559	228,439
EQUITY					
Issued capital	18	300,000	300,000	300,000	300,000
Reserves	19(b)	(66,910)	(67,589)	(70,441)	(71,561)
		233,090	232,411	229,559	228,439
Total equity		233,090	232,411	229,559	228,439

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Tianhe Property (note (a)) is a limited liability company registered in the PRC on 28 May 2001. The registered office of Tianhe Property is located at No.1, Zhangbai Road, East and West Lakes District, Wuhan, Hubei, the PRC.

During the Relevant Periods and the five months ended 31 May 2011, the principal activity of Tianhe Property Group was property development.

Tianhe Property was previously owned 58% by 正中資產管理有限公司 (Zhengzhong Asset Management Company Limited*) ("Zhengzhong"), 32% by 武漢長江世紀投資有限公司 (Wuhan Yangtze Century Investment Company Limited*) ("Yangtze Century") and 10% by 武漢正信國有資產經營有限公司 (Wuhan Zhengxin State-owned Assets Management Company Limited*) ("Wuhan Zhengxin") which are limited liability companies registered in the PRC. In March 2011, the equity interests in Tianhe Property held by Zhengzhong and Yangtze Century were transferred to Hong Kong Tianhe Holdings Limited ("Tianhe"), a limited liability company incorporated in Hong Kong, and Tianhe Property became a 90% owned subsidiary of Tianhe thereafter. In the opinion of the directors of Tianhe Property, as at the date of this report, Tianhe Property's ultimate holding company is 北京北大資產經營有限公司 (Peking University Asset Management Company Limited*) ("PKU Asset Management"), which is registered in the PRC.

Particulars of the subsidiary of Tianhe Property as at 31 May 2012 are set out below:

Name	Place and date of registration	Nominal value of registered share capital	Percentage of equity interest attributable to Tianhe Property	Principal activity
鄂州金豐房地產開發有限公司 (Ezhou Jinfeng Real Estate Development Company Limited*) ("Jinfeng") *(note (b))*	PRC 17 December 2003	RMB10,000,000	95%	Property development

Notes:

(a) The statutory financial statements of Tianhe Property for the years ended 31 December 2009, 2010 and 2011 prepared under PRC generally accepted accounting principles ("PRC GAAP") were audited by 湖北開元會計師事務所有限公司 (Hubei Kaiyuan Certified Public Accountants Company Limited*), certified public accountants registered in the PRC.

(b) The statutory financial statements of Jinfeng for the years ended 31 December 2009, 2010 and 2011 prepared under PRC GAAP were audited by 湖北中冠會計師事務所有限責任公司 (Hubei Zhongguan Certified Public Accountants Company Limited*), certified public accountants registered in the PRC.

* *For identification purpose only*

2.1 BASIS OF PRESENTATION

The Financial Information incorporates the financial statements of Tianhe Property Group for the Relevant Periods and for the five months ended 31 May 2011. The financial statements of the subsidiary are prepared for the same reporting period as Tianhe Property, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which Tianhe Property Group obtains control, and continue to be consolidated until the date that such control ceases, except for the investments in two subsidiaries which were carried at cost less impairment as further explained in note 2.2 below. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If Tianhe Property Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. Tianhe Property Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, except that the results of two subsidiaries, namely 武漢楚天時代創業投資擔保有限公司 (for identification purpose, Wuhan Chutian Era Venture & Guarantee Company Limited) ("Chutian Era") and 武漢宏博投資有限公司 (for identification purpose, Wuhan Hongbo Investment Company Limited) ("Hongbo"), are not consolidated from the date of acquisition, which is required by HKAS 27 (Revised) *Consolidated and Separate Financial Statements* because in the opinion of the directors, the primary purpose of the Financial Information is to provide information of the current group structure of Tianhe Property Group and these two subsidiaries were disposed of during the Relevant Periods without retaining the books and records by Tianhe Property Group, and accordingly the preparation of Financial Information to consolidate the results of these two subsidiaries would involve expense and delay for the purpose of the preparation of the Circular. All HKFRSs effective for the accounting period commencing from 1 January 2012, together with the relevant transitional provisions, have been early adopted by Tianhe Property Group in the preparation of the Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Information.

The Financial Information has been prepared under the historical cost convention, except for investment properties, which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Tianhe Property Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 13	*Fair Value Measurement*[2]
Annual Improvements to HKFRSs 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12: *Transition Guidance*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]

HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect Tianhe Property Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. Tianhe Property Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of Tianhe Property Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. Tianhe Property Group expects to adopt HKFRS 10, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which Tianhe Property Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. Tianhe Property Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. Tianhe Property Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. Tianhe Property Group expects to adopt HKAS 19 (2011) from 1 January 2013.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. Tianhe Property Group expects to adopt the amendments from 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies Tianhe Property controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in Tianhe Property's profit or loss to the extent of dividends received and receivable. Tianhe Property's investments in subsidiaries are stated at cost less any impairment losses.

Tianhe Property Group's investments in unconsolidated subsidiaries are stated at cost less impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by Tianhe Property Group, liabilities assumed by Tianhe Property Group to the former owners of the acquiree and the equity interests issued by Tianhe Property Group in exchange for control of the acquiree. For each business combination, Tianhe Property Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When Tianhe Property Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of Tianhe Property Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Tianhe Property Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Tianhe Property Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of Tianhe Property Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to Tianhe Property Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over Tianhe Property Group;

(ii) has significant influence over Tianhe Property Group; or

(iii) is a member of the key management personnel of Tianhe Property Group or of a parent of Tianhe Property Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and Tianhe Property Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and Tianhe Property Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either Tianhe Property Group or an entity related to Tianhe Property Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) 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).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, Tianhe Property Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	19.4~24.3%
Motor vehicles	16.2%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Tianhe Property Group is the lessor, assets leased by Tianhe Property Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where Tianhe Property Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Tianhe Property Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that Tianhe Property Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Tianhe Property Group's financial assets include cash and bank balances, other receivables, deposits, and amounts due from shareholders, fellow subsidiaries and a related company.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- Tianhe Property Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) Tianhe Property Group has transferred substantially all the risks and rewards of the asset, or (b) Tianhe Property Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Tianhe Property Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Tianhe Property Group's continuing involvement in the asset. In that case, Tianhe Property Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Tianhe Property Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Tianhe Property Group could be required to repay.

Impairment of financial assets

Tianhe Property Group assesses at the end of each of the Relevant Periods whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, Tianhe Property Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Tianhe Property Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Tianhe Property Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Tianhe Property Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

Tianhe Property Group's financial liabilities include amounts due to shareholders, other payables and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by Tianhe Property Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, Tianhe Property Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of each of the Relevant Periods; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and building costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Tianhe Property Group's cash management.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which Tianhe Property Group operates.

Deferred tax is provided using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with an investment in a subsidiary, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with an investment in a subsidiary, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Tianhe Property Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The employees of Tianhe Property Group which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The Financial Information is presented in RMB, which is Tianhe Property's functional and presentation currency. Each entity in Tianhe Property Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in Tianhe Property Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of Tianhe Property Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each of the Relevant Periods. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 9 to the Financial Information.

Recognition and allocation of construction costs 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 the 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 Tianhe Property Group based on management's best estimate. When developing properties, Tianhe Property Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to different phases are allocated to individual phases based on saleable area. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

4. OPERATING SEGMENT INFORMATION

For management purposes, Tianhe Property Group has a single operating and reportable segment, which is property development in Mainland China. All of Tianhe Property Group's operating results are generated from this single segment. During the Relevant Periods, all of Tianhe Property Group's non-current assets were located in Mainland China.

5. OTHER INCOME AND GAINS

An analysis of Tianhe Property Group's other income and gains is as follows:

	Year ended 31 December			Five months ended 31 May	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Other income					
Bank interest income	3	5	55	1	8
Other interest income	836	1,027	1,030	456	492
Others	–	–	5	3	2
	839	1,032	1,090	460	502
Gains					
Gain on disposal of items of property, plant and equipment	11	–	–	–	36
	850	1,032	1,090	460	538

6. PROFIT/(LOSS) BEFORE TAX

Tianhe Property Group's profit/(loss) before tax is arrived at after charging:

		Year ended 31 December			Five months ended 31 May	
	Note	**2009**	**2010**	**2011**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Depreciation	*11*	63	14	17	3	28
Minimum lease payments under operating leases of land and buildings		–	–	359	150	150
Auditors' remuneration		24	4	48	20	20
Employee benefit expense (excluding directors' remuneration *(note 8)*)						
Wages and salaries		–	–	1,644	701	820
Pension scheme contributions*		–	–	103	45	48
		–	–	1,747	746	868

* At 31 December 2009, 2010 and 2011 and 31 May 2012, Tianhe Property Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

7. FINANCE COSTS

An analysis of Tianhe Property Group's finance costs is as follows:

	Year ended 31 December			Five months ended 31 May	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Interest on other borrowing wholly repayable within five years	567	1,583	–	–	–
	567	1,583	–	–	–

8. DIRECTORS' REMUNERATION

Directors' remuneration for the Relevant Periods and the five months ended 31 May 2011 is as follows:

	Year ended 31 December			Five months ended 31 May	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Salaries, allowances and benefits in kind	–	177	544	227	197
Performance related bonuses	–	58	383	160	140
Pension scheme contributions	–	20	65	27	26
	–	255	992	414	363

9. INCOME TAX

PRC corporate income tax

The PRC corporate income tax represents the tax charged on the estimated assessable profits arising in Mainland China, based on the existing legislation, interpretations and practices in respect thereof. No PRC corporate income tax has been provided because Tianhe Property Group did not have any assessable profits arising in Mainland China during the Relevant Periods and the five months ended 31 May 2011.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rate for the jurisdiction in which Tianhe Property and Jinfeng are domiciled to the tax expense at the effective tax rate is as follows:

Tianhe Property Group

	Year ended 31 December			Five months ended 31 May	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Profit/(loss) before tax	52	(689)	(2,857)	(1,410)	(1,122)
Tax at the statutory tax rate of 25%	13	(172)	(714)	(353)	(281)
Expenses not deductible for tax	37	52	29	8	22
Tax loss utilised from previous years	(51)	–	–	–	–
Tax losses not recognised	1	120	685	345	259
Tax charge at the effective rate	–	–	–	–	–

Deferred tax assets have not been recognised in respect of the following items:

	Tianhe Property Group				Tianhe Property			
	As at 31 December			As at 31 May	As at 31 December			As at 31 May
	2009	2010	2011	2012	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Tax losses	79,309	21,891	21,247	20,593	76,860	19,442	18,791	18,761

The above tax losses arising in Mainland China will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by Tianhe Property to its shareholders.

10. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

11. PROPERTY, PLANT AND EQUIPMENT

Tianhe Property Group and Tianhe Property

	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2009, net of accumulated depreciation	18	135	153
Addition	15	–	15
Depreciation	(4)	(59)	(63)
Disposals	(3)	(52)	(55)
At 31 December 2009 and 1 January 2010, net of accumulated depreciation	26	24	50
Additions	4	–	4
Depreciation	(7)	(7)	(14)
At 31 December 2010 and 1 January 2011, net of accumulated depreciation	23	17	40
Additions	194	–	194
Depreciation	(17)	–	(17)
At 31 December 2011 and 1 January 2012, net of accumulated depreciation	200	17	217
Additions	60	263	323
Depreciation	(20)	(8)	(28)
Disposals	–	(10)	(10)
At 31 May 2012, net of accumulated depreciation	240	262	502
At 31 December 2009 and 1 January 2010:			
Cost	206	557	763
Accumulated depreciation	(180)	(533)	(713)
Net carrying amount	26	24	50
At 31 December 2010 and 1 January 2011:			
Cost	210	557	767
Accumulated depreciation	(187)	(540)	(727)
Net carrying amount	23	17	40
At 31 December 2011 and 1 January 2012:			
Cost	404	557	961
Accumulated depreciation	(204)	(540)	(744)
Net carrying amount	200	17	217
At 31 May 2012:			
Cost	464	489	953
Accumulated depreciation	(224)	(227)	(451)
Net carrying amount	240	262	502

12. INVESTMENTS IN SUBSIDIARIES

Tianhe Property Group

	As at 31 December			As at 31 May
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	57,000	50,000	50,000	–

Particulars of Tianhe Property Group's unconsolidated subsidiaries are as follows:

31 December 2009

Name	Place and date of registration	Nominal value of registered share capital	Percentage of equity interests attributable to Tianhe Property	Principal activity
Chutian Era	PRC November 2005	RMB99,000,000	50.51%	Investment guarantee service
Hongbo*	PRC 31 January 2005	RMB10,000,000	70%	Investment

31 December 2010 and 2011

Name	Place and date of registration	Nominal value of registered share capital	Percentage of equity attributable to Tianhe Property	Principal activity
Chutian Era#	PRC November 2005	RMB99,000,000	50.51%	Investment guarantee service

* The investment in Hongbo this subsidiary was disposed of during the year ended 31 December 2010 at its original investment cost of RMB7,000,000.

The investment in Chutian Era was disposed of during the five months ended 31 May 2012 at its original investment cost of RMB50,000,000.

The amounts due from subsidiaries included in the current assets of Tianhe Property Group's consolidated statements of financial position of approximately RMB198,829,000 and RMB185,550,000 as at 31 December 2009 and 2010, respectively, are unsecured, interest-free and are repayable on demand or within one year.

Tianhe Property

	As at 31 December			As at 31 May
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	119,595	112,595	112,595	62,595

Particulars of Tianhe Property's subsidiaries as at 31 December 2009, 2010 and 2011 and 31 May 2012 are set out above and in note 1 of this section.

The amounts due from subsidiaries included in the current assets of Tianhe Property's statements of financial position of approximately RMB198,829,000, RMB185,557,000, RMB1,322,000 and RMB1,702,000 as at 31 December 2009, 2010 and 2011 and 31 May 2012, respectively, are unsecured, interest-free and are repayable on demand or within one year.

13. PROPERTIES UNDER DEVELOPMENT

Tianhe Property Group

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties under development expected to be completed within the normal operating cycle and recovered after more than one year	127,704	131,811	135,909	138,004

Tianhe Property Group's properties under development were located in Mainland China.

As at 31 December 2011 and 31 May 2012, Tianhe Property Group's properties under development with a carrying value of RMB135,909,000 and RMB138,004,000, respectively, were pledged to secure Banking facilities of RMB150,000,000 granted to 北大資源集團有限公司 (Peking University Resource Group Company Limited*) ("PKU Resource"), a fellow subsidiary of Tianhe Property Group. The pledge was subsequently released on 30 August 2012.

Tianhe Property

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties under development expected to be completed within the normal operating recovered after more than one year	61,782	65,267	68,553	70,344

* *For identification purpose only*

14. BALANCES WITH SHAREHOLDERS

Except for an amount of RMB35,000,000 due to a shareholder as at 31 December 2009 which was interest bearing at 6.34% per annum, the balances with shareholders are unsecured, interest-free and have no fixed terms of repayment.

15. DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

16. DUE FROM A RELATED COMPANY

Tianhe Property Group and Tianhe Property

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
武漢國信房地產開發有限公司 (Wuhan Guoxin Real Estate Development Company Limited*) (Wuhan Guoxin)	–	–	21,209	21,701

Wuhan Guoxin is owned 100% by China Hi-Tech Group Company Limited, an associate of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), Tianhe Property's intermediate holding company, at 31 December 2011 and 31 May 2012.

The balance with a related company is unsecured, interest-free and has no fixed terms of repayment.

* *For identification purpose only*

17. CASH AND BANK BALANCES

Tianhe Property Group

		As at 31 December			As at 31 May
	Note	**2009**	**2010**	**2011**	**2012**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	*(a)*	126	1,393	8,685	3,199

Tianhe Property

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	126	1,393	8,665	3,166

(a) The cash and bank balances of Tianhe Property Group are all denominated in RMB at the end of each of the Relevant Periods. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, Tianhe Property Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

18. ISSUED CAPITAL

	As at 31 December			As at 31 May
	2009	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered and paid-up capital	300,000	300,000	300,000	300,000

19. RESERVES

(a) Tianhe Property Group

The amounts of Tianhe Property Group's reserves and the movements therein for the Relevant Periods and the five months ended 31 May 2011 are presented in the consolidated statement of changes in equity in Section I of the Financial Information.

(b) Tianhe Property

	General reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2009	151	(67,116)	(66,965)
Profit for the year and total comprehensive income for the year	–	55	55
At 31 December 2009 and 1 January 2010	151	(67,061)	(66,910)
Loss for the year and total comprehensive loss for the year	–	(679)	(679)
At 31 December 2010 and 1 January 2011	151	(67,740)	(67,589)
Loss for the year and total comprehensive loss for the year	–	(2,852)	(2,852)
At 31 December 2011 and 1 January 2012	151	(70,592)	(70,441)
Loss for the period and total comprehensive loss for the period	–	(1,120)	(1,120)
At 31 May 2012	151	(71,712)	(71,561)

20. ACQUISITION OF A SUBSIDIARY

During the year ended 31 December 2009, Tianhe Property Group acquired 95% equity interest in Jinfeng which is engaged in property development. The acquisition has been accounted for by Tianhe Property Group as acquisition of assets as the entity acquired by Tianhe Property Group does not constitute a business.

The fair values of the identifiable assets and liabilities of Jinfeng as at the date of acquisition were as follows:

	Fair value recognised on acquisition 2009
	RMB'000
Properties under development	65,889
Non-controlling interests	(3,294)
	62,595
Satisfied by cash*	62,595

* Approximately RMB50,967,000, RMB40,177,000, RMB37,169,000 and RMB35,561,000 out of the total consideration of approximately RMB62,595,000 was not settled and classified as other payables as at 31 December 2009, 2010 and 2011 and 31 May 2012, respectively.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	Year ended 31 December			**Five months ended 31 May**	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Cash consideration paid	(11,628)	(10,790)	(3,008)	(1,927)	(1,608)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(11,628)	(10,790)	(3,008)	(1,927)	(1,608)

21. CONTINGENT LIABILITIES

As at 31 December 2011 and 31 May 2012, Tianhe Property Group and Tianhe Property provided a guarantee to a bank in favour of PKU Resource, a fellow subsidiary of Tianhe Property, for banking facilities of RMB150,000,000, which were utilised to the extent of RMB150,000,000 and RMB150,000,000 at 31 December 2011 and 31 May 2012, respectively.

22. COMMITMENTS

Tianhe Property Group and Tianhe Property had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Properties under development	1,734	1,534	2,145	2,145

23. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in the Financial Information, Tianhe Property Group had the following transactions with a related party during the Relevant Periods and the five months ended 31 May 2011:

	Year ended 31 December			Five months ended 31 May	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Interest expense paid to Hubei Tianranju Business Management Limited, held as 18% equity interest in Tianhe Property as at 31 December 2009	567	1,583	–	–	–

This transaction was carried out in accordance with the terms and conditions mutually agreed by both parties.

(b) Other transactions with related parties:

(i) During the year ended 31 December 2011 and the five months ended 31 May 2012, Tianhe Property Group pledged its properties under development and provided a guarantee to a bank in favour of PKU Resource for banking facilities of RMB150,000,000. Further details of the transactions are disclosed in notes 13 and 21 above. The pledge and guarantee were subsequently released on 30 August 2012.

(c) Compensation of key management personnel of Tianhe Property:

	Year ended 31 December			Five months ended 31 May	
	2009	**2010**	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Short term employee benefits	–	235	927	386	336
Post-employment benefits	–	20	65	27	26
Total compensation paid to key management personnel	–	255	992	413	362

Further details of directors' emoluments are included in note 8 to the Financial Information.

(d) Outstanding balances with related parties:

Details of Tianhe Property Group's balances with shareholders, fellow subsidiaries and a related company as at the end of each of the Relevant Periods are disclosed in notes 14, 15 and 16 to the Financial Information, respectively.

24. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Tianhe Property Group

Financial assets – Loans and receivables

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets included in deposits and other receivables	225,586	213,815	292	195
Due from shareholders	21,490	13,690	–	–
Due from fellow subsidiaries	10,343	9,343	105,765	105,765
Due from a related company	–	–	21,209	21,701
Cash and bank balances	126	1,393	8,685	3,199
	257,545	238,241	135,951	130,860

Financial liabilities – Financial liabilities at amortised cost

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	142,376	169,397	88,055	36,499
Due to shareholders	62,595	13,848	–	–
	204,971	183,245	88,055	36,499

Tianhe Property

Financial assets – Loans and receivables

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets included in deposits and other receivables	225,586	213,822	1,614	1,898
Due from shareholders	21,490	13,690	–	–
Due from fellow subsidiaries	10,343	9,343	105,765	105,765
Due from a related company	–	–	21,209	21,701
Cash and bank balances	126	1,393	8,665	3,166
	257,545	238,248	137,253	132,530

Financial liabilities – Financial liabilities at amortised cost

	As at 31 December			As at 31 May
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	142,372	169,391	88,055	36,499
Due to shareholders	62,595	13,848	–	–
	204,967	183,239	88,055	36,499

25. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of Tianhe Property Group's financial instruments and Tianhe Property's financial instruments are equal to the carrying amounts of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank balances, financial assets included in deposits and other receivables, amounts due from related parties, financial liabilities included in other payables and accruals, and amounts due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

Tianhe Property Group and Tianhe Property did not have any financial instruments measured at fair value at the end of each of the Relevant Periods.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Tianhe Property Group's principal financial instruments comprise cash and bank balances. The main purpose of these financial instruments is to raise finance for Tianhe Property Group's operations. Tianhe Property Group has various other financial assets and liabilities such as balances with related parties, which arise directly from its operations.

It is, and has been throughout the Relevant Periods under review, Tianhe Property Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from Tianhe Property Group's financial instruments are credit risk and liquidity risk. The directors of Tianhe Property review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The credit risk of Tianhe Property Group's other financial assets, which comprise cash and bank balances, deposits, other receivables and amounts due from related parties arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

Tianhe Property Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

Tianhe Property Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings.

The maturity profile of Tianhe Property Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Tianhe Property Group

	Within one year or on demand			
	As at 31 December			**As at 31 May**
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	142,376	169,397	88,055	36,499
Due to shareholders	62,595	13,848	–	–
Guarantee given to a bank in favour of PKU Resource	–	–	150,000	150,000
	204,971	183,245	238,055	186,499

The maturity profile of Tianhe Property's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Tianhe Property

	Within one year or on demand			
	As at 31 December			**As at 31 May**
	2009	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	142,372	169,391	88,055	36,499
Due to shareholders	62,595	13,848	–	–
Guarantee given to a bank in favour of PKU Resource	–	–	150,000	150,000
	204,967	183,239	238,055	186,499

Capital management

The primary objective of Tianhe Property Group's capital management is to safeguard its ability to continue as a going concern.

Tianhe Property Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Tianhe Property Group is not subject to any externally imposed capital requirements.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Tianhe Property Group or its subsidiary in respect of any period subsequent to 31 May 2012.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

ERNST & YOUNG
安 永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

16 November 2012

The Directors
EC-Founder (Holdings) Company Limited

Dear Sirs,

We set out below our report on the financial information of Hong Kong Tianhe Holdings Limited ("Tianhe") and its subsidiaries (hereinafter collectively referred to as "Tianhe Group") comprising the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of Tianhe Group for the period from 6 October 2010 (date of incorporation) to 31 December 2010, the year ended 31 December 2011 and the five months ended 31 May 2012 (the "Relevant Periods"), and the consolidated statements of financial position of Tianhe Group and the statements of financial position of Tianhe as at 31 December 2010 and 2011 and 31 May 2012, together with the notes thereto (the "Financial Information"), and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of Tianhe Group for the five months ended 31 May 2011 (the "Interim Comparative Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the shareholders' circular of EC-Founder (Holdings) Company Limited (the "Company") dated 16 November 2012 (the "Circular") in connection with the proposed acquisition of Hong Kong Tianranju Holdings Limited and Tianhe.

Tianhe was incorporated in Hong Kong with limited liability on 6 October 2010. As at the date of this report, no statutory financial statements have been prepared for Tianhe, as Tianhe has not been involved in any significant business transaction other than the acquisition of Tianhe Property Development Limited ("Tianhe Property") since its incorporation.

As at 31 May 2012, Tianhe has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising Tianhe Group have adopted 31 December as their financial year end date. The statutory financial statements of the subsidiaries of Tianhe were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of Tianhe (the "Directors") have prepared the consolidated financial statements of Tianhe Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") except as further explained in the basis of adverse opinion below. The Underlying Financial Statements for the period from 6 October 2010 (date of incorporation) to 31 December 2010, the year ended 31 December 2011 and the five months ended 31 May 2012 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

BASIS FOR ADVERSE OPINION

As further explained in note 2.2 of Section II below, the books and records of a subsidiary, namely 武漢楚天時代創業投資擔保有限公司 (for identification purpose, Wuhan Chutian Era Venture & Guarantee Company Limited) ("Chutian Era"), which had been disposed of on 29 May 2012, have not been retained by Tianhe Group. Due to the insufficiency in accounting information of this subsidiary, the financial positions, results, and cash flows of this subsidiary has not been consolidated in the Financial Information of Tianhe Group from the date of acquisition to its date of disposal. Accordingly, the investment in Chutian Era was carried at cost less impairment and included in the consolidated statement of financial position of Tianhe Group at a carrying amount of RMB50,000,000 as at 31 December 2011.

The exclusion of the financial position, results, and cash flows of this subsidiary in the Financial Information of Tianhe Group is a departure from the requirement of Hong Kong Accounting Standard ("HKAS") 27 (Revised) *Consolidated and Separate Financial Statements*. As a consequence, the Financial Information does not give all the information required about the economic activities of Tianhe Group from 9 March 2011, the date on which Chutian Era became a subsidiary of Tianhe Group, to the date of its disposal and the resulting gain or loss on disposal upon the disposal of Chutian Era on 29 May 2012. Any adjustments that would be required may have a consequential significant effect on the consolidated financial position of Tianhe Group as at 31 December 2011 and the consolidated results and cash flows of Tianhe Group for year ended 31 December 2011 and the five months ended 31 May 2012. It is not practicable to quantify the effects of the departure from this requirement.

ADVERSE OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF TIANHE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011 AND CONSOLIDATED RESULTS AND CASH FLOWS FOR THE FIVE MONTHS ENDED 31 MAY 2012

In our opinion, because of the significance of the matter described in the basis for adverse opinion paragraph, the Financial Information does not give a true and fair view of the state of affairs of Tianhe Group as at 31 December 2011 and of the consolidated results and cash flows of Tianhe Group for the year ended 31 December 2011 and the five months ended 31 May 2012.

OPINION ON THE FINANCIAL INFORMATION OF TIANHE GROUP FOR THE PERIOD FROM 6 OCTOBER 2010 (DATE OF INCORPORATION) TO 31 DECEMBER 2010 AND THE FINANCIAL POSITION OF TIANHE GROUP AS AT 31 MAY 2012 AND OF TIANHE AS AT 31 DECEMBER 2010 AND 2011 AND 31 MAY 2012

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of Tianhe Group as at 31 December 2010 and 31 May 2012 and of Tianhe as at 31 December 2010 and 2011 and 31 May 2012 and of the consolidated results and cash flows of Tianhe Group for the period from 6 October 2010 (date of incorporation) to 31 December 2010.

ADVERSE REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, because of the significance of the matter described in the basis for adverse opinion paragraph, the Interim Comparative Information is not prepared, in all material respects, in accordance with basis of presentation set out in note 2.1 of Section II below.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Period from 6 October 2010 (date of incorporation) to 31 December 2010 RMB'000	Year ended 31 December 2011 RMB'000	Five months ended 31 May 2011 RMB'000 (Unaudited)	Five months ended 31 May 2012 RMB'000
Other income and gains	5	–	195,747	195,117	538
Administrative expenses		(15)	(3,289)	(1,167)	(1,661)
PROFIT/(LOSS) BEFORE TAX	6	(15)	192,458	193,950	(1,123)
Income tax expense	8	–	–	–	–
PROFIT/(LOSS) FOR THE YEAR/ PERIOD		(15)	192,458	193,950	(1,123)
Attributable to:					
Owners of the parent		(15)	192,691	194,037	(1,011)
Non-controlling interests		–	(233)	(87)	(112)
OTHER COMPREHENSIVE INCOME					
Exchange differences on translation of foreign operations		–	1	–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR/PERIOD, NET OF TAX		–	1	–	–
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR/PERIOD		(15)	192,459	193,950	(1,123)
Attributable to:					
Owners of the parent		(15)	192,692	194,037	(1,011)
Non-controlling interests		–	(233)	(87)	(112)
		(15)	192,459	193,950	(1,123)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2010 RMB'000	As at 31 December 2011 RMB'000	As at 31 May 2012 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	*10*	–	217	502
Investments in subsidiaries	*11*	–	50,000	–
Total non-current assets		–	50,217	502
CURRENT ASSETS				
Properties under development	*12*	–	232,074	234,169
Deposits and other receivables		–	292	195
Due from a fellow subsidiary	*13*	–	105,765	105,765
Due from a related company	*14*	–	21,209	21,701
Cash and bank balances	*16*	8	8,692	3,205
Total current assets		8	368,032	365,035
CURRENT LIABILITIES				
Other payables and accruals		–	171,007	119,389
Due to a fellow subsidiary	*13*	–	3	32
Due to a shareholder	*15*	14	16	16
Total current liabilities		14	171,026	119,437
NET CURRENT ASSETS/(LIABILITIES)		(6)	197,006	245,598
TOTAL ASSETS LESS CURRENT LIABILITIES		(6)	247,223	246,100
NON-CURRENT LIABILITIES				
Deferred tax liabilities	*17*	–	24,041	24,041
Net assets/(liabilities)		(6)	223,182	222,059
EQUITY				
Attributable to owners of the parent				
Issued capital	*18*	9	9	9
Reserves	*19(a)*	(15)	192,677	191,666
		(6)	192,686	191,675
Non-controlling interests		–	30,496	30,384
Total equity/(deficiency in assets)		(6)	223,182	222,059

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to owners of the parent					
		Issued capital	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Total	Non-controlling interests	Total equity/ deficiency in assets
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 6 October 2010 (date of incorporation)		–	–	–	–	–	–
Issue of share capital on incorporation	*18*	9	–	–	9	–	9
Loss for the period and total comprehensive loss for the period		–	–	(15)	(15)	–	(15)
At 31 December 2010 and 1 January 2011		9	–	(15)	(6)	–	(6)
Profit/(loss) for the year		–	–	192,691	192,691	(233)	192,458
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations		–	1	–	1	–	1
Total comprehensive income/ (loss) for the year		–	1	192,691	192,692	(233)	192,459
Acquisition of a subsidiary	*20*	–	–	–	–	30,729	30,729
At 31 December 2011 and 1 January 2012		9	1	192,676	192,686	30,496	223,182
Loss for the period and total comprehensive loss for the period		–	–	(1,011)	(1,011)	(112)	(1,123)
At 31 May 2012		9	1	191,665	191,675	30,384	222,059
At 1 January 2011		9	–	(15)	(6)	–	(6)
Profit/(loss) for the period and total comprehensive income/ (loss) for the period (unaudited)		–	–	194,037	194,037	(87)	193,950
Acquisition of a subsidiary	*20*	–	–	–	–	30,729	30,729
At 31 May 2011 (unaudited)		9	–	194,022	194,031	30,642	224,673

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Period from 6 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	Five months ended 31 May 2012
		RMB'000	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax		(15)	192,458	193,950	(1,123)
Adjustments for:					
Depreciation	*6*	–	16	–	28
Interest income	*5*	–	(915)	(288)	(500)
Gain on bargain purchase	*5*	–	(194,828)	(194,828)	–
Gain on disposal of items of property, plant and equipment	*5*	–	–	–	(36)
		(15)	(3,269)	(1,166)	(1,631)
Increase in properties under development		–	(3,456)	(622)	(2,095)
Decrease in deposits and other receivables		–	233,938	23,301	97
Increase in an amount due from a fellow subsidiary		–	(105,765)	–	–
Increase in an amount due from a related company		–	(21,209)	(20,636)	(492)
Decrease in other payables and accruals		–	(93,004)	(46)	(51,618)
Increase in an amount due to a fellow subsidiary		–	3	–	29
Increase in an amount due to a shareholder		14	2	1	–
Cash generated from/(used in) operations		(1)	7,240	832	(55,710)
Interest received		–	915	288	500
Net cash flows from/(used in) operating activities		(1)	8,155	1,120	(55,210)

	Notes	Period from 6 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	2012
		RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	10	–	(187)	–	(323)
Proceeds from disposal of items of property, plant and equipment		–	–	–	46
Acquisition of a subsidiary	20	–	715	715	–
Disposal of a subsidiary	11	–	–	–	50,000
Net cash flows from investing activities		–	528	715	49,723
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares	18	9	–	–	–
Net cash flows from financing activities		9	–	–	–
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		8	8,683	1,835	(5,487)
Cash and cash equivalents at beginning of year/period		–	8	8	8,692
Effects of foreign exchange rate changes, net		–	1	–	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		8	8,692	1,843	3,205
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	16	8	8,692	1,843	3,205

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2010 RMB'000	As at 31 December 2011 RMB'000	As at 31 May 2012 RMB'000
NON-CURRENT ASSETS				
Investments in subsidiaries	*11*	–	78,532	79,026
CURRENT ASSETS				
Cash and bank balances	*16*	8	8	6
CURRENT LIABILITIES				
Other payables and accruals		–	81,766	81,737
Due to a shareholder	*15*	14	16	16
Due to a fellow subsidiary	*13*	–	3	32
Total current liabilities		14	81,785	81,785
NET CURRENT LIABILITIES		(6)	(81,777)	(81,779)
TOTAL ASSETS LESS CURRENT LIABILITIES		(6)	(3,245)	(2,753)
Net liabilities		(6)	(3,245)	(2,753)
EQUITY				
Issued capital	*18*	9	9	9
Reserves	*19(b)*	(15)	(3,254)	(2,762)
Deficiency in assets		(6)	(3,245)	(2,753)

II. NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Tianhe is a limited liability company incorporated in Hong Kong on 6 October 2010. The registered office of Tianhe is located at 28th Floor, The Sun's Group Centre, 200 Gloucester Road, Wanchai, Hong Kong.

The principal activity of Tianhe Group is property development.

In the opinion of the directors of Tianhe, Tianhe's ultimate holding company is 北京北大資產經營有限公司 (Peking University Asset Management Company Limited*) ("PKU Asset Management"), which is registered in the PRC.

Particulars of the subsidiaries of Tianhe as at 31 May 2012 are set out below:

Name	Place and date of registration	Nominal value of registered share capital	Percentage of equity interests attributable to Tianhe Direct	Percentage of equity interests attributable to Tianhe Indirect	Principal activity
Tianhe Property Development Limited ("Tianhe Property") *(note (a))*	PRC 28 May 2001	RMB300,000,000	90%	–	Property development
鄂州金豐房地產開發有限公司 (Ezhou Jinfeng Real Estate Development Company Limited*) ("Jinfeng") *(note (b))*	PRC 17 December 2003	RMB10,000,000	–	95%	Property development

Notes:

(a) The statutory financial statements of Tianhe Property for the year ended 31 December 2011 prepared under PRC generally accepted accounting principles ("PRC GAAP") were audited by 湖北開元會計師事務所有限公司 (Hubei Kaiyuan Certified Public Accountants Company Limited*), certified public accountants registered in the PRC.

(b) The statutory financial statements of Jinfeng for the year ended 31 December 2011 prepared under PRC GAAP were audited by 湖北中冠會計師事務所有限責任公司 (Hubei Zhongguan Certified Public Accountants Company Limited*), certified public accountants registered in the PRC.

* *For identification purpose only*

2.1 BASIS OF PRESENTATION

The Financial Information incorporates the financial statements of Tianhe Group for the Relevant Periods and for the five months ended 31 May 2011. The financial statements of the subsidiaries are prepared for the same reporting period as Tianhe, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which Tianhe Group obtains control, and continue to be consolidated until the date that such control ceases except for the investment in a subsidiary which was carried at cost less impairment as further explained in note 2.2 below. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If Tianhe Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. Tianhe Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, except that the results of a subsidiary, namely 武漢楚天時代創業投資擔保有限公司 (for identification purpose, Wuhan Chutian Era Venture & Guarantee Company Limited) ("Chutian Era"), are not consolidated from the date of acquisition of 9 March 2011, which is required by HKAS27 (Revised) *Consolidated and Separate Financial Statements* because in the opinion of the directors, the primary purpose of the Financial Information is to provide information of the current structure of Tianhe Group and this subsidiary was disposed of during the Relevant Periods on 29 May 2012 without retaining the books and records by Tianhe Group, and accordingly the preparation of Financial Information to consolidate the results of this subsidiary would involve expense and delay for the purpose of the preparation of the Circular. All HKFRSs effective for the accounting period commencing from 1 January 2012, together with the relevant transitional provisions, have been early adopted by Tianhe Group in the preparation of the Financial Information throughout the Relevant Periods and the period covered by the Interim Comparative Information.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

Tianhe Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 13	*Fair Value Measurement*[2]
Annual Improvements to HKFRSs 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12: *Transition Guidance*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect Tianhe Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. Tianhe Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of Tianhe Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. Tianhe Group expects to adopt HKFRS 10, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which Tianhe Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. Tianhe Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. Tianhe Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. Tianhe Group expects to adopt HKAS 19 (2011) from 1 January 2013.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalents to net settlements. Tianhe Group expects to adopt the amendments from 1 January 2014.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which Tianhe, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which Tianhe has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in Tianhe's profit or loss to the extent of dividends received and receivable. Tianhe's investments in subsidiaries are stated at cost less any impairment losses.

Tianhe Group's investment in an unconsolidated subsidiary is stated at cost less impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by Tianhe Group, liabilities assumed by Tianhe Group to the former owners of the acquiree and the equity interests issued by Tianhe Group in exchange for control of the acquiree. For each business combination, Tianhe Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When Tianhe Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of Tianhe Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Tianhe Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Tianhe Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of Tianhe Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than properties under development, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to Tianhe Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over Tianhe Group;

(ii) has significant influence over Tianhe Group; or

(iii) is a member of the key management personnel of Tianhe Group or of a parent of Tianhe Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and Tianhe Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and Tianhe Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either Tianhe Group or an entity related to Tianhe Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) 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).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, Tianhe Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture, fixtures and office equipment	19.4~24.3%
Motor vehicles	16.2%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Tianhe Group is the lessor, assets leased by Tianhe Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where Tianhe Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Tianhe Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that Tianhe Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Tianhe Group's financial assets include cash and bank balances, other receivables, deposits, and amounts due from a fellow subsidiary and a related company.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other operating expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- Tianhe Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) Tianhe Group has transferred substantially all the risks and rewards of the asset, or (b) Tianhe Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Tianhe Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Tianhe Group's continuing involvement in the asset. In that case, Tianhe Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Tianhe Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Tianhe Group could be required to repay.

Impairment of financial assets

Tianhe Group assesses at the end of each of the Relevant Periods whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, Tianhe Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Tianhe Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Tianhe Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Tianhe Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

Tianhe Group's financial liabilities include amounts due to a shareholder and a fellow subsidiary, other payables and accruals.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by Tianhe Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, Tianhe Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of each of the Relevant Periods; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Properties under development

Properties under development are intended to be held for sale after completion.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and building costs attributable to unsold properties. Net realisable value is estimated by the directors based on the prevailing market prices, on an individual property basis.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Tianhe Group's cash management.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which Tianhe Group operates.

Deferred tax is provided using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Tianhe Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer, which is when the construction work has been completed and the properties have been delivered to the buyer. Deposits and instalments received in respect of properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The employees of Tianhe Group which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The Financial Information is presented in RMB. Each entity in Tianhe Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in Tianhe Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of Tianhe is the Hong Kong dollar. As at the end of each of the Relevant Periods, the assets and liabilities of Tianhe are translated into RMB at the exchange rates ruling at the end of each of the Relevant Periods and its profit or loss is translated into RMB at the weighted average exchange rates for the year. The functional currencies of its subsidiaries are RMB, which is the same as Tianhe Group's presentation currency.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of Tianhe is translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of Tianhe which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of Tianhe Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each of the Relevant Periods. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 17 to the Financial Information.

Recognition and allocation of construction costs 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 the 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 Tianhe Group based on management's best estimate. When developing properties, Tianhe Group typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to different phases are allocated to individual phases based on saleable area. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

4. OPERATING SEGMENT INFORMATION

For management purposes, Tianhe Group has a single operating and reportable segment, which is property development in Mainland China. All of Tianhe Group's operating results are generated from this single segment. During the Relevant Periods, all of Tianhe Group's non-current assets were located in Mainland China.

5. OTHER INCOME AND GAINS

	Period from 6 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	Five months ended 31 May 2012
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Other income				
Bank interest income	–	55	1	8
Other interest income	–	860	287	492
Others	–	4	1	2
	–	919	289	502
Gains				
Gain on bargain purchase*	–	194,828	194,828	–
Gain on disposal of items of property, plant and equipment	–	–	–	36
	–	194,828	194,828	36
	–	195,747	195,117	538

* The gain on bargain purchase was mainly arsing from the appreciation of the properties under development when the identifiable assets and liabilities were measured at their acquisition-date fair value.

6. PROFIT/(LOSS) BEFORE TAX

Tianhe Group's profit/(loss) before tax is arrived at after charging:

	Note	Period from 6 October 2010 (date of incorporation) to 31 December 2010	Year ended 31 December 2011	Five months ended 31 May 2011	Five months ended 31 May 2012
		RMB'000	*RMB'000*	*RMB'000* (*Unaudited*)	*RMB'000*
Depreciation	*10*	–	16	–	28
Minimum lease payments under operating leases of land and buildings		–	299	90	150
Auditors' remuneration		–	56	23	20
Employee benefit expense:					
Wages and salaries		–	1,415	446	820
Pension scheme contributions*		–	85	27	48
		–	1,500	473	868

* As at 31 December 2010 and 2011, and 31 May 2012, Tianhe Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years.

7. DIRECTORS' REMUNERATION

No director received any fees or emoluments in respect of their services rendered to Tianhe Group during the Relevant Periods and the five months ended 31 May 2011.

8. INCOME TAX

Hong Kong profits tax

No Hong Kong profits tax has been provided because Tianhe Group did not have any assessable profits arising in Hong Kong during the Relevant Periods and the five months ended 31 May 2011.

PRC corporate income tax

The PRC corporate income tax represents the tax charged on the estimate assessable profits arising in Mainland China, based on the existing legislation, interpretations and practices in respect thereof. No PRC corporate income tax has been provided because Tianhe Group did not have any assessable profits arising in Mainland China during the Relevant Periods and the five months ended 31 May 2011.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which Tianhe and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

Tianhe Group – Period from 6 October 2010 (date of incorporation) to 31 December 2010

	Hong Kong
	RMB'000
Loss before tax	(15)
Tax at the statutory tax rate	(2)
Tax losses not recognised	2
Tax charge at Tianhe Group's effective rate	–

Tianhe Group – Year ended 31 December 2011

	Hong Kong	**Mainland China**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before tax	194,784	(2,326)	192,458
Tax at the statutory tax rate	32,139	(581)	31,558
Income not subject to tax	(32,146)	–	(32,146)
Expenses not deductible for tax	–	22	22
Tax losses not recognised	7	559	566
Tax charge at Tianhe Group's effective rate	–	–	–

Tianhe Group – Five months ended 31 May 2012

	Hong Kong	**Mainland China**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Loss before tax	(1)	(1,122)	(1,123)
Tax at the statutory tax rate	–	(281)	(281)
Expenses not deductible for tax	–	22	22
Tax losses not recognised	–	259	259
Tax charge at Tianhe Group's effective rate	–	–	–

Tianhe Group – Five months ended 31 May 2011 (unaudited)

	Hong Kong	**Mainland China**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Profit/(loss) before tax	194,827	(877)	193,950
Tax at the statutory tax rate	32,146	(219)	31,927
Income not subject to tax	(32,146)	–	(32,146)
Expenses not deductible for tax	–	1	1
Tax losses not recognised	–	218	218
Tax charge at Tianhe Group's effective rate	–	–	–

9. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

10. PROPERTY, PLANT AND EQUIPMENT

Tianhe Group

	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 6 October 2010 (date of incorporation), 31 December 2010 and 1 January 2011:			
Cost, accumulated depreciation and net carrying amount	–	–	–
Additions	187	–	187
Depreciation	(16)	–	(16)
Acquisition of a subsidiary *(note 20)*	29	17	46
At 31 December 2011 and 1 January 2012, net of accumulated depreciation	200	17	217
Additions	60	263	323
Depreciation	(20)	(8)	(28)
Disposals	–	(10)	(10)
At 31 May 2012, net of accumulated depreciation	240	262	502
At 31 December 2011:			
Cost	216	17	233
Accumulated depreciation	(16)	–	(16)
Net carrying amount	200	17	217
At 31 May 2012:			
Cost	464	489	953
Accumulated depreciation	(224)	(227)	(451)
Net carrying amount	240	262	502

11. INVESTMENTS IN SUBSIDIARIES

Tianhe Group

	As at 31 December 2010 *RMB'000*	 2011 *RMB'000*	As at 31 May 2012 *RMB'000*
Unlisted shares, at cost	–	50,000	–

Particulars of Tianhe Group's unconsolidated subsidiary are as follows:

31 December 2011

Name	Place and date of registration	Nominal value of registered share capital	Percentage of equity interests attributable to Tianhe	Principal activity
Chutian Era#	PRC November 2005	RMB99,000,000	50.51%	Investment guarantee service

The investment in Chutian Era was disposed of during the five months ended 31 May 2012 at its original investment cost of RMB50,000,000.

Tianhe

	As at 31 December 2010	As at 31 December 2011	As at 31 May 2012
	RMB'000	*RMB'000*	*RMB'000*
Unlisted shares, at cost	–	78,532	79,026

Particulars of Tianhe's subsidiaries as at 31 December 2011 and 31 May 2012 are set out above and in note 1 of this section.

12. PROPERTIES UNDER DEVELOPMENT

Tianhe Group

	As at 31 December 2010	As at 31 December 2011	As at 31 May 2012
	RMB'000	*RMB'000*	*RMB'000*
Properties under development expected to be completed within the normal operating cycle and recovered after more than one year	–	232,074	234,169

Tianhe Group's properties under development are located in Mainland China.

As at 31 December 2011 and 31 May 2012, Tianhe Group's properties under development with a carrying value of approximately RMB232,074,000 and RMB234,169,000, respectively were pledged to secure banking facilities of RMB150,000,000 granted to 北大資源集團有限公司 (Peking University Resource Group Company Limited*) ("Peking Resource"), a fellow subsidiary of Tianhe. The pledge was subsequently released on 30 August 2012.

13. BALANCES WITH FELLOW SUBSIDIARIES

The balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

14. DUE FROM A RELATED COMPANY

Tianhe Group

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
武漢國信房地產發展有限公司 (Wuhan Guoxin Real Estate Development Company Limited*) ("Wuhan Guoxin")	–	21,209	21,701

Wuhan Guoxin is owned 100% by China Hi-Tech Group Company Limited, associate of 北大方正集團有限公司 (Peking University Founder Group Company Limited*) ("Peking Founder"), Tianhe Group's intermediate holding company, at 31 December 2011 and 31 May 2012.

The amount due from a related company is unsecured, interest-free and has no fixed terms of repayment.

* *For identification purpose only*

15. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and has no fixed terms of repayment.

16. CASH AND BANK BALANCES

Cash and bank balances of Tianhe Group are denominated in RMB amounted to approximately nil, RMB8,685,000 and RMB3,199,000 as at 31 December 2010, 2011 and 31 May 2012, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, Tianhe Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

17. DEFERRED TAX

The movements in deferred tax liabilities during the Relevant Periods are as follows:

Deferred tax liabilities

Tianhe Group

	Fair value adjustments arising from acquisition of a subsidiary
	RMB'000
At 6 October 2010 (date of incorporation), 31 December 2010 and 1 January 2011	–
Acquisition of a subsidiary *(note 20)*	24,041
Deferred tax liabilities at 31 December 2011 and 31 May 2012	24,041

Deferred tax assets have not been recognised in respect of the following items:

	Tianhe Group			**Tianhe**		
	As at 31 December		**As at 31 May**	**As at 31 December**		**As at 31 May**
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Tax losses	–	21,247	20,593	–	–	–

Tianhe Group has tax losses arising in Mainland China that will expire in five years for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as they have arisen in the subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by Tianhe to its shareholder.

18. ISSUED CAPITAL

	As at 31 December		**As at 31 May**
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Authorised:			
120,000,000 (2011: 120,000,000; 2010: 10,000) ordinary shares of HK$1 each	9	98,127	98,127
Issued and fully paid:			
10,000 ordinary shares of HK$1 each	9	9	9

During the Relevant Periods, the movements in share capital were as follows:

(a) On 6 October 2010 (date of incorporation), 10,000 ordinary share were issued at par.

(b) Pursuant to an ordinary resolution passed on 16 December 2011, the authorised share capital of Tianhe was increased from HK$10,000 (equivalent to approximately RMB9,000) to HK$120,000,000 (equivalent to approximately RMB98,127,000) by the creation of 119,990,000 additional shares of HK$1 each, ranking pari passu in all respects with the existing shares of Tianhe.

A summary of the transactions during the Relevant Periods with reference to the above movements in Tianhe's issued capital is as follows:

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Issued and fully paid			
At beginning of the year/period	–	9	9
Issue of shares	9	–	–
At end of the year/period	9	9	9

19. RESERVES

(a) Tianhe Group

The amounts of Tianhe Group's reserves and the movements therein for the Relevant Periods and the five months ended 31 May 2011 are presented in the consolidated statement of changes in equity in Section I of the Financial Information.

(b) Tianhe

	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 6 October 2010 (date of incorporation)	–	–	–
Loss for the period and total comprehensive loss for the period	–	(15)	(15)
At 31 December 2010 and 1 January 2011	–	(15)	(15)
Loss for the year	–	(3,240)	(3,240)
Other comprehensive income for the year:			
Exchange differences on translation of foreign operations	1	–	1
Total comprehensive profit/(loss) for the year	1	(3,240)	(3,239)
At 31 December 2011 and 1 January 2012	1	(3,255)	(3,254)
Profit for the period and total comprehensive income for the period	–	492	492
At 31 May 2012	1	(2,763)	(2,762)

20. BUSINESS COMBINATION

In March 2011, Tianhe acquired 90% equity interest in Tianhe Property from 正中資產管理有限公司 (Zhengzhong Asset Management Company Limited*) and 武漢長江世紀投資有限公司 (Wuhan Yantze Century Investment Company Limited*) at a cash consideration of approximately RMB81,729,000. Tianhe Property is mainly engaged in property development.

Tianhe Group has elected to measure the non-controlling interests in Tianhe Property at the non-controlling interests' proportionate share of Tianhe property's identifiable net assets.

The fair values of the identifiable assets and liabilities of Tianhe Property as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *RMB'000*
Property, plant and equipment	*10*	46
Investment in a subsidiary		50,000
Properties under development		228,618
Deposits and other receivables		234,230
Cash and cash equivalents		715
Other payables and accruals		(182,282)
Deferred tax liabilities	*17*	(24,041)
Total identifiable net assets at fair value		307,286
Non-controlling interests		(30,729)
Gain on bargain purchase recognised in other income and gains in profit or loss	*5*	(194,828)
To be satisfied by cash#		81,729

The cash consideration of approximately RMB81,729,000 was not settled and classified as other payables as at 31 December 2011 and 31 May 2012.

The gain on bargain purchase was mainly due to the fact that the purchase consideration was mutually agreed based on a discount to the total fair value of identifiable assets and liabilities of Tianhe Property measured at the date of acquisition.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash and cash equivalents acquired	715
Net inflow of cash and cash equivalents included in cash flows from investing activities	715

Since the acquisition, Tianhe Property did not generate any revenue and contributed a net loss of RMB2,326,000 to the consolidated profit for the year ended 31 December 2011.

* *For identification purpose only*

21. CONTINGENT LIABILITIES

As at 31 December 2011 and 31 May 2012, Tianhe Group provided a guarantee to a bank in favour of PKU Resource, a fellow subsidiary of Tianhe, for banking facilities of RMB150,000,000, which were utilised to the extent of RMB150,000,000 and RMB150,000,000 at 31 December 2011 and 31 May 2012, respectively. Tianhe had no contingent liabilities as at the end of each of the Relevant Periods.

22. COMMITMENTS

Tianhe Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for:			
Properties under development	–	2,145	2,145

Tianhe had not commitment as at the end of each of the Relevant Periods.

23. RELATED PARTY TRANSACTIONS

(a) Transactions with a related party

During the year ended 31 December 2011 and the five months ended 31 May 2012, Tianhe Group pledged its properties under development and provided a guarantee to a bank in favour of PKU Resource for banking facilities of RMB150,000,000. Further details of the transactions are disclosed in notes 12 and 21 above. The pledge and guarantee were subsequently released on 30 August 2012.

(b) Compensation of key management personnel of Tianhe Group:

	Period from 6 October 2010 (date of incorporation) to 31 December	Year ended 31 December	Five months ended 31 May	
	2010	**2011**	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Short term employee benefits	–	773	232	336
Post-employment benefits	–	54	16	26
Total compensation paid to key management personnel	–	827	248	362

Further details of directors' emoluments are included in note 7 to the Financial Information.

(c) Outstanding balances with related parties:

Details of Tianhe Group's balances with fellow subsidiaries, a related company and a shareholder as at 31 December 2010 and 2011 and 31 May 2012 are disclosed in notes 13, 14 and 15 to the Financial Information.

24. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Tianhe Group

Financial assets – Loans and receivables

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets included in deposits and other receivables	–	292	195
Due from a fellow subsidiary	–	105,765	105,765
Due from a related company	–	21,209	21,701
Cash and bank balances	8	8,692	3,205
	8	135,958	130,866

Financial liabilities – Financial liabilities at amortised cost

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	–	169,828	118,236
Due to a fellow subsidiary	–	3	32
Due to a shareholder	14	16	16
	14	169,847	118,284

Tianhe

Financial assets – Loans and receivables

	As at 31 December		As at 31 May
	2010	**2011**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	8	8	6

Financial liabilities – Financial liabilities at amortised cost

	As at 31 December		As at 31 May
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	–	81,737	81,737
Due to a shareholder	14	16	16
Due to a fellow subsidiary	–	3	32
	14	81,756	81,785

25. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of Tianhe Group's financial instruments and Tianhe's financial instruments are equal to the carrying amounts of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and bank balances, financial assets included in deposits and other receivables, amounts due from related parties, financial liabilities included in other payables and accruals and amounts due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

Tianhe Group and Tianhe did not have any financial instruments measured at fair value at the end of each of the Relevant Periods.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Tianhe Group's principal financial instruments comprise cash and bank balances. The main purpose of these financial instruments is to raise finance for Tianhe Group's operations. Tianhe Group has various other financial assets and liabilities such as balances with related parties, which arise directly from its operations.

It is, and has been throughout the Relevant Periods under review, Tianhe Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from Tianhe Group's financial instruments are credit risk and liquidity risk. The directors of Tianhe review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The credit risk of Tianhe Group's other financial assets, which comprise cash and bank balances, deposits, other receivables and amounts due from related parties arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

Tianhe Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

Tianhe Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings.

The maturity profiles of Tianhe Group's and Tianhe's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, are as follows:

Tianhe Group

	Within one year or on demand		
	As at 31 December		As at 31 May
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	–	169,828	118,236
Due to a fellow subsidiary	–	3	32
Due to a shareholder	14	16	16
Financial guarantee given to a bank in favour of PKU Resource	–	150,000	150,000
	14	319,847	268,284

Tianhe

	Within one year or on demand		
	As at 31 December		As at 31 May
	2010	2011	2012
	RMB'000	*RMB'000*	*RMB'000*
Financial liabilities included in other payables and accruals	–	81,737	81,737
Due to a fellow subsidiary	–	3	32
Due to a shareholder	14	16	16
	14	81,756	81,785

Capital management

The primary objectives of Tianhe Group's capital management is to safeguard its ability to continue as a going concern.

Tianhe Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Tianhe Group is not subject to any externally imposed capital requirements.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Tianhe Group or its subsidiaries in respect of any period subsequent to 31 May 2012.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction to the unaudited pro forma financial information of the Enlarged Group

The accompanying unaudited pro forma financial information of the Enlarged Group (as defined in this circular) comprising the unaudited pro forma consolidated statement of comprehensive income, statement of financial position and statement of cash flows of the Enlarged Group, has been prepared by the Directors (as defined in this circular) in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for illustrative purposes only, to provide information about how the Acquisition (as defined in this circular) as detailed in the section headed "Letter from the Board" in this circular might have affected the results of operations, financial position and cash flows of the Group as if the Acquisition had been completed on (i) 1 January 2011 in respect of the unaudited pro forma consolidated statement of comprehensive income and statement of cash flows of the Enlarged Group; and (ii) 31 December 2011 in respect of the unaudited pro forma consolidated statement of financial position of the Enlarged Group.

The unaudited pro forma financial information of the Enlarged Group has been prepared based on the audited financial statements of the Group for the year ended 31 December 2011 as set out in Appendix I to this circular, and the audited financial information of the Acquired Group (as defined in this circular) as set out in the accountants' reports in Appendix II(B) and Appendix II(D) to this circular, after giving effect to the pro forma adjustments described in the accompanying notes. Narrative descriptions of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are set out in the accompanying notes.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual results of operations, financial position and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Furthermore, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future results of operations, financial position or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2011 as set out in Appendix I to this circular, and the audited financial information of the Acquired Group as set out in the accountants' reports in Appendix II(B) and Appendix II(D) to this circular, and other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2011

	The Group for the year ended 31 December 2011	Tianranju Group for the year ended 31 December 2011	Tianhe Group for the year ended 31 December 2011	Consolidated Total	Pro forma adjustments	Notes	The Enlarged Group for the year ended 31 December 2011
	(Note 1)	*(Note 2)*	*(Note 2)*				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
REVENUE	5,400,140	5,976	–	5,406,116			5,406,116
Cost of sales	(5,136,292)	(971)	–	(5,137,263)			(5,137,263)
Gross profit	263,848	5,005	–	268,853			268,853
Other income and gains	28,092	9,098	235,738	272,928	47,703	*8*	320,631
Fair value losses on investment properties, net	–	3,613	–	3,613			3,613
Selling and distribution costs	(155,702)	(1,479)	–	(157,181)			(157,181)
Administrative expenses	(57,223)	(1,134)	(3,961)	(62,318)			(62,318)
Other operating expenses, net	(2,357)	–	–	(2,357)			(2,357)
Finance costs	(77,740)	–	–	(77,740)			(77,740)
Share of profits and losses of associates	(4,528)	–	–	(4,528)			(4,528)
PROFIT/(LOSS) BEFORE TAX	(5,610)	15,103	231,777	241,270			288,973
Income tax expense	(2,801)	(2,293)	–	(5,094)			(5,094)
PROFIT/(LOSS) FOR THE YEAR	(8,411)	12,810	231,777	236,176			283,879
OTHER COMPREHENSIVE LOSS							
Exchange differences on translation of foreign operations	(756)	–	–	(756)			(756)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(756)	–	–	(756)			(756)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(9,167)	12,810	231,777	235,420			283,123
Attributable to:							
Owners of the parent	(9,167)	13,832	232,058	236,723	47,703	*8*	284,426
Non-controlling interests	–	(1,022)	(281)	(1,303)			(1,303)
	(9,167)	12,810	231,777	235,420			283,123

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 31 DECEMBER 2011

	The Group as at 31 December 2011	Tianranju Group as at 31 May 2012	Tianhe Group as at 31 May 2012	Consolidated Total	Pro forma adjustments	*Notes*	The Enlarged Group as at 31 December 2011
	(Note 1)	*(Note 2)*	*(Note 2)*				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
NON-CURRENT ASSETS							
Property, plant and equipment	9,351	3,696	612	13,659			13,659
Investment properties	–	194,358	–	194,358			194,358
Prepaid land lease payments	–	10,754	–	10,754	214	*8*	10,968
Goodwill	2,892	46,458	–	49,350	18,415	*8*	67,765
Interests in associates	34,169	–	–	34,169			34,169
Total non-current assets	46,412	255,266	612	302,290			320,919
CURRENT ASSETS							
Inventories	293,528	470,221	285,380	1,049,129	492,392	*8*	1,541,521
Trade and bills receivables	705,426	925	–	706,351			706,351
Prepayments, deposits and other receivables	345,660	9,951	238	355,849	26,448	*11*	382,297
Tax recoverable	288	–	–	288			288
Due from a shareholder	–	2,012	–	2,012			2,012
Due from fellow subsidiaries	–	48	128,896	128,944	(128,935)	*3*	–
					(9)	*11*	
Due from a related company	–	–	26,448	26,448	(26,439)	*11*	9
Pledged deposits and restricted cash	81,178	10,140	–	91,318			91,318
Cash and cash equivalents	449,188	6,658	3,906	459,752	99,933	*4*	559,685
Total current assets	1,875,268	499,955	444,868	2,820,091			3,283,481
CURRENT LIABILITIES							
Trade and bills payables	828,146	58,944	–	887,090			887,090
Other payables and accruals	180,907	224,691	145,499	551,097	6	*11*	551,103
Due to a shareholder	–	–	19	19	113,047	*11*	113,066
Due to fellow subsidiaries	–	171,266	39	171,305	(128,935)	*3*	–
					(42,370)	*11*	
Due to an intermediate holding company	–	113,047	–	113,047	(113,047)	*11*	–
Due to a related company	–	6	–	6	42,364	*11*	42,370
Interest-bearing bank borrowings	566,856	–	–	566,856			566,856
Tax payable	1,160	–	–	1,160			1,160
Total current liabilities	1,577,069	567,954	145,557	2,290,580			2,161,645
NET CURRENT ASSETS/ (LIABILITIES)	298,199	(67,999)	299,311	529,511			1,121,836
TOTAL ASSETS LESS CURRENT LIABILITIES	344,611	187,267	299,923	831,801			1,442,755

	The Group as at 31 December 2011	Tianranju Group as at 31 May 2012	Tianhe Group as at 31 May 2012	Consolidated Total	Pro forma adjustments	*Notes*	The Enlarged Group as at 31 December 2011
	(Note 1)	*(Note 2)*	*(Note 2)*				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	344,611	187,267	299,923	831,801			1,442,755
NON-CURRENT LIABILITIES							
Deferred tax liabilities	–	30,610	29,299	59,909	123,152	*8*	183,061
Long term payable	5,400	–	–	5,400			5,400
Total non-current liabilities	5,400	30,610	29,299	65,309			188,461
Net assets	339,211	156,657	270,624	766,492			1,254,294
EQUITY							
Equity attributable to owners of the parent							
Issued capital	110,606	19,754	11	130,371	52,791	*6*	163,397
					99,933	*4*	
					(119,698)	*10*	
Reserves	228,605	9,244	233,585	471,434	174,209	*6*	760,517
					310,000	*7*	
					(566,288)	*8*	
					203,761	*8*	
					47,703	*8*	
					119,698	*10*	
	339,211	28,998	233,596	601,805			923,914
Non-controlling interests	–	127,659	37,028	164,687	165,693	*8*	330,380
Total equity	339,211	156,657	270,624	766,492			1,254,294

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2011

	The Group for the year ended 31 December 2011	**Tianranju Group for the year ended 31 December 2011**	**Tianhe Group for the year ended 31 December 2011**	**Consolidated Total**	**Pro forma adjustments**	*Notes*	**The Enlarged Group for the year ended 31 December 2011**
	(Note 1)	*(Note 2)*	*(Note 2)*				
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit/(loss before tax:)	(5,610)	15,103	231,777	241,270	47,703	*8*	288,973
Adjustments for:							
Finance costs	77,740	–	–	77,740			77,740
Share of profits and losses of associates	4,528	–	–	4,528			4,528
Interest income	(23,050)	(51)	(1,102)	(24,203)			(24,203)
Depreciation	2,800	75	19	2,894			2,894
Gain on disposal of items of property, plant and equipment	(11)	(6)	–	(17)			(17)
Reversal of impairment of trade receivables	(1,431)	–	–	(1,431)			(1,431)
Write off of prepayment, deposits and other receivables	3,097	–	–	3,097			3,097
Provision for obsolete inventories	6,118	–	–	6,118			6,118
Changes in fair value of investment properties	–	(3,613)	–	(3,613)			(3,613)
Recognition of prepaid land lease payments	–	255	–	255			255
Gain on acquisition of subsidiaries	–	(9,033)	(234,631)	(243,664)	(47,703)	*8*	(291,367)
Equity-settled share option expense	256	–	–	256			256
	64,437	2,730	(3,937)	63,230			63,230
Decrease/(increase) in inventories	245,279	(10,736)	(4,162)	230,381			230,381
Increase in trade and bills receivables	(37,919)	–	–	(37,919)			(37,919)
Decrease in prepayments, deposits and other receivables	35,310	2,049	281,732	319,091	(160)	*11*	318,931
Increase in amount due from a shareholder	–	(511)	–	(511)			(511)
Increase in amount due from fellow subsidiaries	–	(4,646)	(127,373)	(132,019)	132,011 8	*3* *11*	–
Increase in amounts due from related companies	–	(160)	–	(160)	152	*11*	(8)
Increase/(decrease) in trade and bills payables	(619,033)	3,943	–	(615,090)			(615,090)
Decrease in other payables and accruals	(46,227)	(50,096)	(112,005)	(208,328)	(24,933)	*11*	(233,261)
Increase in amount due to fellow subsidiaries	–	132,616	4	132,620	(132,011) (609)	*3* *11*	–
Decrease in an amount due to a related company	–	–	(25,542)	(25,542)	25,542	*11*	–

	The Group for the year ended 31 December 2011 *(Note 1)* *HK$'000*	Tianranju Group for the year ended 31 December 2011 *(Note 2)* *HK$'000*	Tianhe Group for the year ended 31 December 2011 *(Note 2)* *HK$'000*	Consolidated Total *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	The Enlarged Group for the year ended 31 December 2011 *HK$'000*
Increase in an amount due to an intermediate holding company	–	111,711	–	111,711	(111,711)	*11*	–
Increase/(decrease) in amounts due to shareholders	–	(18)	2	(16)	111,711		111,695
Increase in long term payable	5,400	–	–	5,400			5,400
Decrease in restricted cash	–	4,574	–	4,574			4,574
Exchange differences	(16,444)	–	–	(16,444)			(16,444)
Cash (used in)/from operations	(369,197)	191,456	8,719	(169,022)			(169,022)
Interest received	8,337	51	1,102	9,490			9,490
Interest paid	(77,740)	–	–	(77,740)			(77,740)
Mainland of the People's Republic of China ("Mainland China" or the "PRC") corporate income tax paid	(3,008)	–	–	(3,008)			(3,008)
Hong Kong profits tax paid	(274)	–	–	(274)			(274)
Net cash flows (used in)/from operating activities	(441,882)	191,507	9,821	(240,554)			(240,554)
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisition of subsidiaries	–	(198,347)	861	(197,486)	99,933	*4*	(97,553)
Interest received	9,641	–	–	9,641			9,641
Dividend received from an associate	1,376	–	–	1,376			1,376
Purchases of items of property, plant and equipment	(4,945)	(611)	(225)	(5,781)			(5,781)
Proceeds from disposal of items of property, plant and equipment	42	338	–	380			380
Increase in time deposits with original maturity of more than three months when acquired	(96,417)	–	–	(96,417)			(96,417)
Advance of entrusted loans to related companies	(559,130)	–	–	(559,130)			(559,130)
Repayment of entrusted loans from related companies	359,416	–	–	359,416			359,416
Decrease in pledged deposits	107,843	–	–	107,843			107,843
Net cash flows (used in)/ from investing activities	(182,174)	(198,620)	636	(380,158)			(280,225)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from issue of shares	–	19,510	–	19,510			19,510
New bank loans	735,259	–	–	735,259			735,259
Repayment of bank loans	(276,931)	–	–	(276,931)			(276,931)
Net cash flows from financing activities	458,328	19,510	–	477,838			477,838

	The Group for the year ended 31 December 2011 (Note 1) HK$'000	Tianranju Group for the year ended 31 December 2011 (Note 2) HK$'000	Tianhe Group for the year ended 31 December 2011 (Note 2) HK$'000	Consolidated Total HK$'000	Pro forma adjustments HK$'000	Notes	The Enlarged Group for the year ended 31 December 2011 HK$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(165,728)	12,397	10,457	(142,874)			(42,941)
Cash and cash equivalents at beginning of year	489,062	10	10	489,082			489,082
Effect of foreign exchange rate changes, net	17,667	(91)	1	17,577			17,577
CASH AND CASH EQUIVALENTS AT END OF YEAR	341,001	12,316	10,468	363,785			463,718
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS							
Cash and bank balances	338,001	12,316	10,468	360,785	99,933	4	460,718
Non-pledged time deposits	111,187	–	–	111,187			111,187
Cash and cash equivalents as stated in the consolidated statement of financial position	449,188	12,316	10,468	471,972			571,905
Non-pledged time deposits with original maturity of over three months when acquired	(108,187)	–	–	(108,187)			(108,187)
Cash and cash equivalents as stated in the consolidated statement of cash flows	341,001	12,316	10,468	363,785			463,718

Notes:

1. The balances are extracted from the audited financial statements of the Group for the year ended 31 December 2011 as set out in Appendix I to this circular.

2. The balances are extracted from the audited financial information of Tianranju Group and Tianhe Group as set out in Appendix II(B) and Appendix II(D), respectively, to this circular and were translated to Hong Kong dollars at translation rates of RMB100=HK$121.87 in respect of unaudited pro forma consolidated statement of financial position and RMB100=HK$120.43 in respect of the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows.

3. This reflects the adjustment on the elimination of balances between Tianranju Group and Tianhe Group.

4. Being the adjustment for capital injection of RMB82,000,000 (equivalent to approximately HK$99,933,000) by the Vendor (as defined in this circular) into Tianhe prior to the completion of the Acquisition.

5. In accordance with the S&P and Subscription Agreement (as defined in this circular), the consideration for the Acquisition of approximately HK$537,000,000 was satisfied: (i) HK$227,000,000 by the issue of Consideration Shares (as defined in this circular) by the Company at the Completion Date (as defined in this circular); and (ii) HK$310,000,000 by the issue of the Consideration Convertible Bonds (as defined in this circular) by the Company at the Completion Date.

   An analysis of the total cost of the Acquisition is set out as follows:

	HK$'000
Consideration for the Acquisition:	
Consideration Shares (note 6)	227,000
Consideration Convertible Bonds (note 7)	310,000
Total cost of the Acquisition (note 8)	537,000

6. The value of the Consideration Shares issued for the Acquisition was based on 527,906,976 Shares issued at HK$0.430 per share as detailed in the section headed "Letter from the Board". However, the fair value of the Consideration Shares issued as consideration for the Acquisition so arrived at as aforesaid of HK$270 million and used for the purpose of the preparation of the unaudited pro forma financial information set out above may be substantially different from their fair value based on share price on the Completion Date, being the date the Company obtains control over the Acquired Group. Accordingly, the actual amount of goodwill and/or negative goodwill arising from the Acquisition may be different from that shown in note (8) below and the difference may be significant.

   Upon the issuance of the 527,906,976 Consideration Shares by the Company in connection with the Acquisition at value of approximately HK$227,000,000, the share capital and the reserves of the Company will be increased by approximately HK$52,791,000 and HK$174,209,000, respectively.

7. The Consideration Convertible Bonds with an aggregate principal amount of HK$310,000,000 issued by the Company as part of the consideration for the Acquisition are recognised as an equity instrument in the unaudited pro forma consolidated financial position in accordance with Hong Kong Accounting Standard ("HKAS") 32 *Financial Instruments: Disclosures and Presentation* issued by the HKICPA as the number of shares into which the Consideration Convertible Bonds could be converted was fixed at the issuance date and the Consideration Convertible Bonds were interest-free and not redeemable in cash.

   No valuation on the Consideration Convertible Bonds has been performed for the purpose of the unaudited pro forma financial information, as in the opinion of the directors of the Company, it is more meaningful to present the allocation of purchase cost by reference to the S&P and Subscription Agreement.

   Since the fair value of the Consideration Convertible Bonds to be issued at the Completion Date may be substantially different from the fair value so arrived at as aforesaid of HK$310 million used in preparing this unaudited pro forma financial information, the actual amount of goodwill and/or negative goodwill arising from the Acquisition may be different from the amounts presented in note (8) below and the difference may be significant.

8. Under Hong Kong Financial Reporting Standard 3 *Business Combinations* issued by the HKICPA, the Group applied the acquisition method to account for the acquisition of Tianranju Group and Tianhe Group in the unaudited pro forma financial information of the Enlarged Group.

   The estimated fair value adjustment on investment properties, properties under development and land use right are determined by reference to the valuation report by LCH (Asia-Pacific) Surveyors Limited ("LCH") dated 22 August 2012 and the total estimated fair value of investment properties, properties under development and land use right is RMB1,192,516,000 (equivalent to approximately HK$1,453,319,000) at 31 May 2012, which is attributable to both equity owners of the Company and the non-controlling shareholders.

The excess over the cost of business combination arising from the Acquisition is calculated as follows:

	Tianranju Group *HK$'000*	**Tianhe Group** *HK$'000*	**Total** *HK$'000*
Cost of the Acquisition (note 5)	215,077	321,923	537,000
Net assets of Tianranju Group and Tianhe Group as at 31 May 2012	156,657	270,624	427,281
Capital injection from the Vendor (note 4)	–	99,933	99,933
Fair value adjustment on properties under development, investment properties and land use right	438,132	54,474	492,606
Deferred tax liabilities recognised in respect of fair value adjustment (note 9)	(109,533)	(13,619)	(123,152)
Fair value of net assets of Tianranju Group and Tianhe Group as at 31 May 2012	485,256	411,412	896,668
Non-controlling interests in net assets of Tianranju Group and Tianhe Group	(288,594)	(41,786)	(330,380)
Fair value of net assets of Tianranju Group and Tianhe Group acquired attributable to equity owners of the Company	196,662	369,626	566,288
Goodwill arising from the Acquisition	18,415	–	18,415
Negative goodwill arising from the Acquisition	–	47,703	47,703

During the business combination, except for land use right, investment properties and properties under development held by Tainranju Group and Tainhe Group, it is assumed that the fair values of other identifiable assets and liabilities of Tainranju Group and Tianhe Property Group approximate to their carrying amounts.

The Directors have reviewed the carrying value of goodwill of Tianranju Group and Tianhe Group in accordance with HKAS 36 *Impairment of Assets*, taking into account the assessment result carried out by an independent valuer, LCH (Asia-Pacific) Surveyors Limited. Based on the assessment result, the Directors are of the opinion that there are no indications that the values of the goodwill of the Tianranju Group and Tianhe Group may be impaired.

Upon the Completion Date, the fair value of the identifiable assets and liabilities of the Tianranju Group and Tianhe Group will be reassessed and may be significantly different from the fair value as stated above. As a result, the goodwill and negative goodwill on the Acquisition at the Completion Date may be significantly different from that estimated amounts presented above.

The fair value of properties under development, investment properties and land use rights acquired are as follows:

	Tianranju Group *HK$'000*	Tianhe Group *HK$'000*	Total *HK$'000*
Net book value as at 31 May 2012			
Properties under development	470,221	285,380	755,601
Investment properties	194,358	–	194,358
Land use right	10,754	–	10,754
	675,333	285,380	960,713
Fair value as at 31 May 2012			
Properties under development	908,139	339,854	1,247,993
Investment properties	194,358	–	194,358
Land use right	10,968	–	10,968
	1,113,465	339,854	1,453,319
Fair value adjustment			
Properties under development	437,918	54,474	492,392
Investment properties	–	–	–
Land use right	214	–	214
	438,132	54,474	492,606
Fair value adjustment, net of tax	328,599	40,855	369,454
Attributable to:			
Equity owners of the Company	167,664	36,097	203,761
Non-controlling interests	160,935	4,758	165,693

The fair value adjustment, net of tax, was allocated between equity owners of the Company and non-controlling interests by reference to their respective proportionate share of the Acquired Group's net assets.

9. The adjustment represented the deferred tax liabilities attributable to the fair value adjustment of the properties under development, investment properties and land use right of RMB404,206,000 (equivalent to approximately HK$492,606,000) of Tianranju Group and Tianhe Group calculated at the statutory tax rate of 25%.

10. Being the adjustment for the elimination of the Company's investments in Tianranju Group and Tianhe Group.

11. Being the adjustment for receivables and payables due to change of relationship upon the Completion Date.

12. For illustration purpose, should the estimated fair value adjustment on properties under development, investment properties and land use right be determined with reference to the valuation report issued by LCH as at 31 August 2012 in Appendix V to this circular, as a result of the Acquisition, (i) the unaudited pro forma total assets of the Enlarged Group as at 31 December 2011 would be approximately HK$3,629,000,000; (ii) the unaudited pro forma total liabilities of the Enlarged Group as at 31 December 2011 would be approximately HK$2,360,000,000; (iii) the unaudited pro forma net assets attributable to owners of the parent of the Enlarged Group as at 31 December 2011 would be approximately HK$924,426,000; and (iv) the unaudited pro forma comprehensive income attributable to owners of the parent of the Enlarged Group for the year ended 31 December 2011 would be approximately HK$284,937,000.

B. LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

ERNST & YOUNG
安 永

22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

16 November 2012

The Board of Directors
EC-Founder (Holdings) Company Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of EC-Founder (Holdings) Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the proposed acquisition of (i) 100% equity interest in Hong Kong Tianranju Holdings Limited ("Tianranju", together with its subsidiaries, referred to as "Tianranju Group"), and (ii) 100% equity interest in Hong Kong Tianhe Holdings Limited ("Tianhe", together with its subsidiaries, referred to as "Tianhe Group", together with Tianranju Group and the Group, collectively referred to as the "Enlarged Group") might have affected the financial information presented, for inclusion as Appendix III to the Circular of the Company dated 16 November 2012 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on section A of Appendix III to the Circular.

Respective Responsibilities of Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 *Accountants' Reports on Pro Forma Financial Information in Investment Circulars* issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the bases stated, that such bases are consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2011 or any future dates; nor

- the results of the Group for the year ended 31 December 2011 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the bases stated;

(b) such bases are consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(I) MANAGEMENT DISCUSSION AND ANALYSIS OF HUBEI TIANRANJU GROUP

a) Overview

Hubei Tianranju is a limited company incorporated in the PRC and is principally engaged in property investment. Hubei Tianranju currently owns 51% of the equity interests in Kunshan Hi-Tech and 100% of the equity interests in Beijing Tianranju.

Hubei Tianranju owns 77% of the total gross floor area of a commercial building called International Building of Wuhan in Wuhan city, Hubei province. Hubei Tianranju also has 100% interest of a piece of land for agriculture development and ecotourism usages located at Huangpo District, Wuhan city, Hubei province.

Kunshan Hi-Tech is a company established in the PRC with limited liability and is principally engaged in property development business. Hubei Tianranju acquired 51% equity interests in Kunshan Hi-Tech in November 2011. Kunshan Hi-Tech has interest in a developing residential development known as PKU Resource – Li Cheng Project in Kunshan city, Jiangsu province.

Beijing Tianranju is a company established by Hubei Tianranju in June 2012 in the PRC with limited liability and is principally engaged in property leasing.

b) Financial Overview

1. For the year ended 31 December 2009

Profit and loss

Hubei Tianranju Group's revenue for the year ended 31 December 2009 was approximately RMB4.7 million, representing the gross rental income from International Building of Wuhan. The average monthly rental of International Building of Wuhan was approximately RMB21.0 per square meter for the year ended 31 December 2009. Gross profit for the year was approximately RMB3.3 million, representing a gross profit margin of approximately 71.1%.

Other income of approximately RMB0.6 million for the year was mainly contributed by the interest income. Net fair value gains on investment properties amounted to approximately RMB5.1 million was due to revaluation of International Building of Wuhan during the year. Administrative expenses and finance costs amounted to approximately RMB0.5 million and RMB0.6 million, respectively.

Profit before tax of Hubei Tianranju Group for the year was approximately RMB7.9 million. After deducting the income tax expenses of approximately RMB2.7 million, profit for the year attributable to the owners of the parent was approximately RMB5.2 million, representing a net profit attributable to the owners of the parent margin of approximately 112.0%.

Liquidity, financial position and capital structure

During the year ended 31 December 2009, Hubei Tianranju Group funded its operations mainly by internally generated fund. As at 31 December 2009, Hubei Tianranju Group had cash and cash equivalents of approximately RMB5.7 million, all denominated in RMB. As at 31 December 2009, Hubei Tianranju Group had bank borrowings of approximately RMB35.0 million due by 2014. The average effective interest rate on such bank borrowings as at 31 December 2009 was approximately 6.34%.

During the year ended 31 December 2009, Hubei Tianranju Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2009, the current assets and current liabilities of Hubei Tianranju Group were approximately RMB181.0 million and RMB286.6 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 0.6 times as at 31 December 2009.

Hubei Tianranju Group's total assets and total liabilities as at 31 December 2009 amounted to approximately RMB337.7 million and RMB326.6 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 96.7% as at 31 December 2009.

Significant acquisition and disposal

There was no material acquisition or disposal of subsidiary by Hubei Tianranju Group during the year ended 31 December 2009.

Significant investments

There were no significant investments held by Hubei Tianranju Group as at 31 December 2009.

Charges on Hubei Tianranju Group's assets

Bank borrowings of Hubei Tianranju Group as at 31 December 2009 were secured by International Building of Wuhan with a carrying amount of approximately RMB150.0 million as at 31 December 2009. The bank borrowings were fully repaid during the year ended 31 December 2010.

Contingent liabilities

Hubei Tianranju Group did not have any significant contingent liabilities as at 31 December 2009.

Dividend

Hubei Tianranju Group did not declare or pay dividend for the year ended 31 December 2009.

2. For the year ended 31 December 2010

Profit and loss

Hubei Tianranju Group's revenue increased from approximately RMB4.7 million in 2009 to approximately RMB5.5 million in 2010, mainly due to the increase in average occupancy rate of International Building of Wuhan based on the gross floor area owned by Hubei Tianranju from approximately 80.9% in 2009 to approximately 97.4% in 2010. The average monthly rental of International Building of Wuhan was approximately RMB22.7 per square meter for the year ended 31 December 2010, approximately 8.1% higher than the year ended 31 December 2009. Gross profit for the year was approximately RMB4.5 million, representing a gross profit margin of approximately 82.0%, 10.9% higher than 2009. The increase in gross profit margin in 2010 was mainly due to the absence of relatively large scale repair and maintenance expenses on International Building of Wuhan which was incurred by Hubei Tianranju Group in 2009.

Other income of approximately RMB1.6 million for the year was mainly contributed by the interest income. Net fair value gains on investment properties amounted to approximately RMB4.1 million was due to revaluation of International Building of Wuhan. Administrative expenses in 2010 was approximately RMB0.3 million, which was approximately RMB 0.2 million lower than 2009. Finance costs increased from approximately RMB0.6 million in 2009 to approximately RMB1.6 million in 2010, mainly due to the full year effect of the interest expenses on the RMB35.0 million bank borrowings drawn in 2009.

Profit before tax of Hubei Tianranju Group was approximately RMB8.3 million. After deducting the income tax expenses of approximately RMB2.4 million, profit for the year attributable to the owners of the parent was approximately RMB5.9 million. Despite the increase in gross margin by 10.9% in 2010, net profit attributable to the owners of the parent margin in 2010 was approximately 106.8%, which was lower than the net profit margin of approximately 112.0% in 2009. The decrease in net profit margin was mainly due to the decrease in net fair value gains on investment properties from approximately RMB5.1 million in 2009 (approximately 109.5% of revenue in 2009) to approximately RMB4.1 million in 2010 (approximately 74.3% of revenue in 2010) and the increase in finance costs to revenue ratio from approximately 12.1% in 2009 to approximately 28.6% in 2010 as discussed above, offset by the increase in other income and gains to revenue ratio from approximately 12.7% in 2009 to approximately 28.9% in 2010 and the decrease in effective tax rate from 33.9% in 2009 to 29.2% in 2010.

Liquidity, financial position and capital structure

During the year ended 31 December 2010, Hubei Tianranju Group funded its operations mainly by internally generated funds. As at 31 December 2010, Hubei Tianranju Group had cash and cash equivalents of approximately RMB4.6 million, all denominated in RMB.

During the year ended 31 December 2010, Hubei Tianranju Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2010, the current assets and current liabilities of Hubei Tianranju Group were approximately RMB147.2 million and RMB283.3 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, decreased from approximately 0.6 times as at 31 December 2009 to approximately 0.5 times as at 31 December 2010, mainly attributable to a decrease in current assets resulting from the full repayment of the lendings to related companies of approximately RMB33.8 million in 2010, the proceeds of which was subsequently used to repay the outstanding long term bank borrowings of RMB35.0 million.

Hubei Tianranju Group's total assets and total liabilities as at 31 December 2010 amounted to approximately RMB307.7 million and RMB290.8 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 94.5% as at 31 December 2010, similar to 96.7% as at 31 December 2009.

Significant acquisition and disposal

There was no material acquisition or disposal of subsidiary by Hubei Tianranju Group during the year ended 31 December 2010.

Significant investments

There were no significant investments held by Hubei Tianranju Group as at 31 December 2010.

Charges on Hubei Tianranju Group's assets

As at 31 December 2010, International Building of Wuhan with carrying amount of approximately RMB154.0 million were pledged to secure approximately RMB150.0 million bank facilities granted to subsidiaries of Peking Founder. The pledge was released during the five months ended 31 May 2012.

Contingent liabilities

As at 31 December 2010, Hubei Tianranju provided a guarantee to a bank in favour of subsidiaries of Peking Founder for banking facilities of RMB 150.0 million. The guarantee was released during the five months ended 31 May 3012.

Dividend

Hubei Tianranju Group did not declare or pay dividend for the year ended 31 December 2010.

3. For the year ended 31 December 2011

On 25 November 2011, Hubei Tianranju Group acquired 51% interest in Kunshan Hi-Tech at a cash consideration of approximately RMB152.6 million. Kunshan Hi-Tech has interest in a developing residential development known as PKU Resource – Li Cheng Project in Jiangsu province.

Profit and loss

Hubei Tianranju Group's revenue increased from approximately RMB5.5 million in 2010 to approximately RMB5.9 million in 2011, mainly due to the increase in average occupancy rate of International Building of Wuhan based on the gross floor area owned by Hubei Tianranju from approximately 97.4% in 2010 to approximately 99.2% in 2011. The average monthly rental of International Building of Wuhan was approximately RMB22.9 per square meter for the year ended 31 December 2011, approximately 0.9% higher than the year ended 31 December 2010. Gross profit for the year was approximately RMB5.0 million, representing a gross profit margin of approximately 84.9%, 2.9% higher than 2010. The increase in gross profit margin in 2011 was mainly due to increase in unit rental and lower regular repair and maintenance expenses incurred on International Building of Wuhan in 2011.

Hubei Tianranju Group recorded other income of approximately RMB1.5 million for the year. Net fair value gains on investment properties amounted to approximately RMB6.0 million was due to revaluation of International Building of Wuhan. Selling and distribution costs and administrative expenses amounted to approximately RMB1.2 million and RMB0.9 million, respectively. Selling and distribution costs primarily represent advertising, promotion and rental expenses incurred by Kunshan Hi-Tech for the marketing of Phase I development of PKU Resource – Li Cheng Project.

Profit before tax of Hubei Tianranju Group was approximately RMB10.4 million. After deducting the income tax expenses of approximately RMB2.9 million, profit for the year attributable to the owners of the parent was approximately RMB8.3 million. Net profit attributable to the owners of the parent margin increased from approximately 106.8% in 2010 to approximately 140.7% in 2011, mainly attributable to the increase in gross margin as discussed above and increase in net fair value gains from approximately RMB4.1 million in 2010 to approximately RMB6.0 million in 2011, offset by the increase in selling and distribution costs incurred by Kunshan Hi-Tech.

Liquidity, financial position and capital structure

During the year ended 31 December 2011, Hubei Tianranju Group funded its operations mainly by internally generated fund and amount due to its intermediate holding company. The entire amount due to its intermediate holding company was subsequently settled in July 2012. As at 31 December 2011, Hubei Tianranju Group had cash and cash equivalents (excluding restricted cash) of approximately RMB6.6 million, all denominated in RMB.

During the year ended 31 December 2011, Hubei Tianranju Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2011, the current assets and current liabilities of Hubei Tianranju Group were approximately RMB411.2 million and RMB459.9 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, increased from approximately 0.5 times as at 31 December 2010 to approximately 0.9 times as at 31 December 2011, mainly attributable to an increase in current assets resulting from the carrying value of properties under development of approximately RMB373.5

million of Kunshan Hi-Tech, net off by an increase in current liabilities resulting from advances from Tianhe Property and Peking Founder with a total of approximately RMB198.8 million.

Hubei Tianranju Group's total assets and total liabilities (including non-controlling interests) as at 31 December 2011 amounted to approximately RMB618.4 million and RMB593.1 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 95.9% as at 31 December 2011 (31 December 2010: 94.5%).

Significant acquisition and disposal

Save for the acquisition of Kunshan Hi-Tech, there was no material acquisition or disposal of subsidiary by Hubei Tianranju Group during the year ended 31 December 2011.

Significant investments

There were no significant investments held by Hubei Tianranju Group as at 31 December 2011.

Charges on Hubei Tianranju assets

Pursuant to relevant regulations in the PRC, Kunshan Hi-Tech was required to place approximately RMB8.3 million at designated bank accounts as guarantee deposits for the construction of the developing residential development as at 31 December 2011.

As at 31 December 2011, International Building of Wuhan with carrying amount of approximately RMB160.0 million were pledged to secure approximately RMB150.0 million bank facilities granted to subsidiaries of Peking Founder. The pledge was released during the five months ended 31 May 2012.

Contingent liabilities

As at 31 December 2011, Hubei Tianranju provided guarantees to banks in favour of subsidiaries of Peking Founder for banking facilities of RMB200.0 million. The guarantees were released during the five months ended 31 May 2012.

Dividend

Hubei Tianranju Group did not declare or pay dividend for the year ended 31 December 2011.

4. For the five months ended 31 May 2012

Profit and loss

Hubei Tianranju Group's revenue, representing the gross rental income from International Building of Wuhan, for the five months ended 31 May 2012 was approximately RMB2.5 million, which was slightly higher than the revenue of approximately RMB2.4 million in the corresponding period in 2011. The average monthly rental of International Building of Wuhan was approximately RMB23.7 per square meter for the five months ended 31 May 2012, approximately 3.5% higher than the year ended 31 December 2011. For the five months ended 31 May 2012, the average occupancy rate of International Building of Wuhan based on the gross floor area owned by Hubei Tianranju was approximately 99.5%. Gross profit for the year was approximately RMB2.3 million, representing a gross profit margin of approximately 89.4%, which is higher than the gross profit margin of approximately 77.8% in the corresponding period in 2011. The increase in gross profit margin in 2012 was mainly due to lower regular repair and maintenance expenses incurred on International Building of Wuhan in 2011.

Net fair value loss on investment properties amounted to approximately RMB1.0 million was due to revaluation of International Building of Wuhan. Selling and distribution costs and administrative expenses amounted to approximately RMB5.6 million and RMB3.5 million, respectively. Selling and distribution costs primarily represent advertising, promotion and rental expenses incurred by Kunshan Hi-Tech.

Loss before tax of Hubei Tianranju Group was approximately RMB7.9 million. After deducting the income tax expenses of approximately RMB0.3 million, loss for the period attributable to the owners of the parent was approximately RMB3.8 million. Comparing with profit attributable to the owners of the parent of approximately RMB4.9 million for the five months ended 31 May 2011, the net loss recorded in 2012 was primarily attributable to the increase in selling and distribution costs and administrative expenses incurred by Kunshan Hi-Tech, which was acquired by Hubei Tianranju in November 2011, for the marketing of Phase I development of PKU Resource – Li Cheng Project in Jiangsu province.

Liquidity, financial position and capital structure

During the period ended 31 May 2012, Hubei Tianranju Group funded its operations mainly by internally generated fund and amount due to an intermediate holding company. The amount due to the intermediate holding company was subsequently settled in July 2012. As at 31 May 2012, Hubei Tianranju Group had cash and cash equivalents (excluding restricted cash) of approximately RMB3.1 million, all denominated in RMB.

During the period ended 31 May 2012, Hubei Tianranju Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 May 2012, the current assets and current liabilities of Hubei Tianranju Group were approximately RMB406.1 million and RMB461.9 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, remained flat at approximately 0.9 times as at 31 May 2012 (31 December 2011: 0.9 times).

Hubei Tianranju Group's total assets and total liabilities (including the non-controlling interests) as at 31 May 2012 amounted to approximately RMB612.5 million and RMB591.0 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 96.5% as at 31 May 2012 (31 December 2011: 95.9%).

Significant acquisition and disposal

There was no material acquisition or disposal of subsidiary by Hubei Tianranju Group during the five months ended 31 May 2012.

Significant investments

There were no significant investments held by Hubei Tianranju Group as at 31 May 2012.

Charges on Hubei Tianranju assets

Pursuant to relevant regulations in the PRC, Kunshan Hi-Tech was required to place approximately RMB8.3 million at designated bank accounts as guarantee deposits for the construction of the developing residential development as at 31 May 2012.

As at 31 May 2012, Kunshan Hi-Tech's developing residential development with carrying amount of approximately RMB385.8 million were pledged to secure a entrusted loan of approximately RMB250.0 million granted by PKU Resource.

Contingent liabilities

As at 31 May 2012, Hubei Tianranju Group had approximately RMB1.33 million guarantees given to banks in respect of mortgage loans for certain purchasers of Kunshan Hi-Tech's properties.

Dividend

Hubei Tianranju Group did not declare or pay dividend for the period ended 31 May 2012.

c) Employment and Remuneration Policy

Hubei Tianranju Group had a total of 7, 25 and 46 employees for the two years ended 31 December 2011 and the five months ended 31 May 2012, respectively. The remuneration policy is set out by the board of directors of the companies comprising Hubei Tianranju Group on the basis of their experience, merit, qualifications and competence. Apart from basic salaries, annual target performance related bonuses were awarded to certain staffs.

Currently there are no share option schemes available for employees of the Hubei Tianranju Group. Internal and external technical and professional training is provided to employees.

The PRC employees of Hubei Tianranju Group are members of a state-managed retirement benefit scheme operated by the local government. Hubei Tianranju Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Hubei Tianranju Group with respect to the retirement benefit scheme is to make the specified contributions. During the three years ended 31 December 2011 and the five months period ended 31 May 2012, the total employee benefit expenses of Hubei Tianranju Group (including total contributions to the retirement benefit schemes) was approximately RMB19,000, RMB21,000, RMB0.4 million and RMB2.1 million, respectively.

d) Outlook and future prospects of Hubei Tianranju Group

The two major businesses of Hubei Tianranju Group are the leasing of commercial units of International Building of Wuhan and the development of the PKU Resource – Li Cheng Project.

The occupancy rates of International Building of Wuhan based on the gross floor area owned by Hubei Tianranju for the three years ended 31 December 2011 and the five months ended 31 May 2012 were approximately 80.9%, 97.4%, 99.2% and 99.5%, respectively. In view of the current high occupancy rate, it is believed that International Building of Wuhan will continue to provide stable income stream for Hubei Tianranju Group.

PKU Resource – Li Cheng Project is a combined property development project which features an art exhibition centre, commercial properties and residential properties in Bacheng, Kunshan city, Jiangsu province. Jiangsu province is ranked as one of the top Chinese provinces in terms of GDP per capita and Kunshan is currently regarded as one of the most economically successful county-level administrations in China. Having considered the quality and location of the PKU Resource – Li Cheng Project and the economic growth of Kunshan city and Jiangsu province, it is believed that PKU Resource – Li Cheng Project will provide a remarkable income and cashflow to Hubei Tianranju Group when completed.

(II) MANAGEMENT DISCUSSION AND ANALYSIS OF TIANRANJU GROUP

a) Overview

Tianranju is an investment holding company incorporated in Hong Kong on 7 October 2010 with limited liability. On 1 March 2011, Tianranju acquired 100% interest in Hubei Tianranju at a cash consideration of approximately RMB16.1 million. During the period under review, except holding the entire equity interests in Hubei Tianranju, Tianranju has not commenced any business operation.

b) Financial Review

1. For the period from 7 October 2010 (date of incorporation) to 31 December 2010

Profit and loss

For the period ended 31 December 2010, Tianranju has not commenced any business operation and therefore no revenue was generated.

Loss for the period attributable to the owners of the parent was approximately RMB23,000, being the administrative expenses incurred.

Liquidity, financial position and capital structure

During the period ended 31 December 2010, Tianranju funded its operations mainly by amount due to its shareholder. As at 31 December 2010, Tianranju had cash and cash equivalents of approximately RMB8,000, all was denominated in HK$.

During the period ended 31 December 2010, Tianranju did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2010, the current assets and current liabilities of Tianranju were approximately RMB8,000 and RMB22,000, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 0.4 times as at 31 December 2010. The relatively low current ratio was due to the fact that Tianranju was mainly funded by the advance from its shareholder with no commercial operation during the period.

Tianranju's total assets and total liabilities as at 31 December 2010 amounted to approximately RMB8,000 and RMB22,000, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 275.0% as at 31 December 2010. The high gearing was due to the fact that Tianranju was mainly funded by the advance from its shareholder with no commercial operation during the period.

Significant acquisition and disposal

There was no material acquisition or disposal of subsidiary by Tianranju during the period ended 31 December 2010.

Significant investments

There were no significant investments held by Tianranju as at 31 December 2010.

Charges on Tianranju assets

As at 31 December 2010, none of Tianranju's assets were pledged.

Contingent liabilities

Tianranju did not have any significant contingent liabilities as at 31 December 2010.

Dividend

Tianranju did not declare or pay dividend for the period ended 31 December 2010.

2. For the year ended 31 December 2011

Profit and loss

Tianranju Group's revenue for the year ended 31 December 2011 was approximately RMB4.9 million, represents the gross rental income from International Building of Wuhan after Tianranju acquired Hubei Tianranju in March 2011.

Other income of approximately RMB7.6 million for the year was mainly contributed by the gain on bargain purchase upon acquisition of Hubei Tianranju. Net fair value gains on investment properties amounted to approximately RMB3.0 million was due to revaluation of International Building of Wuhan. Selling and distribution costs and administrative expenses amounted to approximately RMB1.2 million and RMB0.9 million, respectively. Selling and distribution costs represent advertising, promotion and rental expenses incurred by Kunshan Hi-Tech for the marketing of Phase I development of PKU Resource – Li Cheng Project in Jiangsu province after the acquisition of 51% equity interests in Kunshan Hi-Tech by Hubei Tianranju in November 2011.

Profit before tax of Tianranju Group for the year ended 31 December 2011 was approximately RMB12.5 million. After deducting the income tax expenses of approximately RMB1.9 million, profit for the period attributable to the owners of the parent was approximately RMB11.5 million.

Liquidity, financial position and capital structure

During the year ended 31 December 2011, Tianranju Group funded its operations mainly by internally generated fund and amount due to its intermediate holding company. The entire amount due to its intermediate holding company was subsequently settled in July 2012. As at 31 December 2011, Tianranju Group had cash and cash equivalents (excluding restricted cash) of approximately RMB10.2 million, majority of which was denominated in RMB.

During the year ended 31 December 2011, Tianranju Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2011, the current assets and current liabilities of Tianranju Group were approximately RMB415.4 million and RMB464.0 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 0.9 times as at 31 December 2011.

Tianranju Group's total assets and total liabilities (including the non-controlling interests) as at 31 December 2011 amounted to approximately RMB625.6 million and RMB598.0 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 95.6% as at 31 December 2011.

Significant acquisition and disposal

Save for the acquisition of 100% equity interests of Hubei Tianranju by Tianranju in March 2011 and the acquisition of 51% equity interests of Kunshan Hi-Tech by Hubei Tianranju in November 2011, there was no material acquisition or disposal of subsidiary by Tianranju Group during the year ended 31 December 2011.

Significant investments

There were no significant investments held by Tianranju Group as at 31 December 2011.

Charges on Tianranju assets

Pursuant to relevant regulations in the PRC, Kunshan Hi-Tech was required to place approximately RMB8.3 million at designated bank accounts as guarantee deposits for the construction of the developing residential development as at 31 December 2011.

As at 31 December 2011, International Building of Wuhan with carrying amount of approximately RMB160.0 million were pledged to secure approximately RMB150 million bank loans granted to subsidiaries of Peking Founder. The pledge was released during the five months ended 31 May 2012.

Contingent liabilities

As at 31 December 2011, Tianranju Group provided guarantees to banks in favour of subsidiaries of Peking Founder for banking facilities of RMB200 million. The guarantees were released during the five months ended 31 May 2012.

Dividend

Tianranju Group did not declare or pay dividend for the year ended 31 December 2011.

3. For the five months ended 31 May 2012

Profit and loss

Tianranju Group's revenue for the five months ended 31 May 2012 was approximately RMB2.5 million, represents the gross rental income from International Building of Wuhan. The increase in revenue from approximately RMB1.5 million for the five months ended 31 May 2011 to approximately RMB2.5 million for the same period in 2012 was mainly due to the fact that Tianranju only acquired the equity interest in Hubei Tianranju in March 2011 and therefore only approximately three months results of Hubei Tianranju was consolidated during the period under review in 2011. For the five months ended 31 May 2012, the average occupancy rate of International Building of Wuhan based on the gross floor area owned by Hubei Tianranju was approximately 99.5%.

Other income of approximately RMB40,000 for the period was mainly bank interest income. Net fair value losses on investment properties amounted to approximately RMB1.0 million was due to revaluation of International Building of Wuhan. Selling and distribution costs and administrative expenses amounted to approximately RMB5.6 million and RMB3.6 million, respectively. The increase in selling and distribution costs from nil in the five months period in 2011 to approximately RMB5.6 million in 2012 was primarily due to the advertising and promotion expenses incurred by Kunshan Hi-Tech, which was acquired by Hubei Tianranju in November 2011. Similarly, the increase in administrative expenses in 2012 was mainly due to increase in staff costs incurred by Kunshan Hi-Tech.

Loss before tax of Tianranju Group was approximately RMB7.9 million. After deducting the income tax expenses of approximately RMB0.3 million, loss for the period attributable to the owners of the parent was approximately RMB3.8 million. Comparing with profit attributable to the owners of the parent of approximately RMB8.1 million for the five months ended 31 May 2011, the net loss recorded in 2012 was primarily attributable to the increase in selling and distribution costs and administrative expenses incurred by Kunshan Hi-Tech, which was acquired by Hubei Tianranju in November 2011, for the marketing of Phase I development of PKU Resource Li Cheung Project in Jiangsu.

Liquidity, financial position and capital structure

During the period ended 31 May 2012, Tianranju Group funded its operations mainly by internally generated fund and amount due to its intermediate holding company. The entire amount due to its intermediate holding company was subsequently settled in July 2012. As at 31 May 2012, Tianranju Group had cash and cash equivalents (excluding restricted cash) of approximately RMB5.5 million, the majority of which was denominated in RMB.

During the period ended 31 May 2012, Tianranju Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 May 2012, the current assets and current liabilities of Tianranju Group were approximately RMB410.2 million and RMB466.0 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, remained flat at approximately 0.9 times as at 31 May 2012 (31 December 2011: 0.9 times).

Tianranju Group's total assets and total liabilities (including non-controlling interests) as at 31 May 2012 amounted to approximately RMB619.7 million and RMB595.9 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 96.2% as at 31 May 2012 (31 December 2011: 95.6%).

Significant acquisition and disposal

There was no material acquisition or disposal of subsidiary by Tianranju Group during the period ended 31 May 2012.

Significant investments

There were no significant investments held by Tianranju Group as at 31 May 2012.

Charges on Tianranju assets

Pursuant to relevant regulations in the PRC, Kunshan Hi-Tech was required to place approximately RMB8.3 million at designated bank accounts as guarantee deposits for the construction of the developing residential development as at 31 May 2012.

As at 31 May 2012, Kunshan Hi-Tech's developing residential development with carrying amount of approximately RMB385.8 million were pledged to secure a entrusted loan of approximately RMB250.0 million granted by PKU Resource.

Contingent liabilities

As at 31 May 2012, Tianranju Group had approximately RMB1.33 million guarantees given to banks in respect of mortgage loan for certain purchasers of Kunshan Hi-Tech's properties.

Dividend

Tianranju Group did not declare or pay dividend for the period ended 31 May 2012.

c) Employment and Remuneration Policy

Tianranju Group had a total of 7, 25 and 46 employees for the two years ended 31 December 2011 and the five months ended 31 May 2012, respectively. The remuneration policy is set out by the board of directors of the companies comprising Tianranju Group on the basis of their merit, qualifications and competence. Apart from basic salaries, annual target performance related bonuses were awarded to certain staffs.

The PRC employees of Tianranju Group are members of a state-managed retirement benefit scheme operated by the local government. Tianranju Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of Tianranju Group with respect to the retirement benefit scheme is to make the specified contributions. During the two years ended 31 December 2011 and the five months period ended 31 May 2012, the total employee benefit expenses of Tianranju Group (including total contributions to the retirement benefit schemes) was approximately RMBnil, RMB0.4 million and RMB2.1 million, respectively.

d) Outlook and future prospects of Tianranju Group

As the only business of Tianranju is the holding of entire interests of Hubei Tianranju, please refer to the paragraph headed "(I) Management discussion and analysis of Hubei Tianranju Group – Outlook and future prospectus of Hubei Tianranju Group" above for the outlook and future prospects of Tianranju Group.

(III) MANAGEMENT DISCUSSION AND ANALYSIS OF TIANHE PROPERTY GROUP

a) Overview

Tianhe Property is a limited company incorporated in the PRC on 28 May 2001 and is principally engaged in property development, leasing and sales. Tianhe Property currently owns 95% equity interests in Ezhou Jinfeng.

Ezhou Jinfeng is a limited company established in the PRC with limited liability and is principally engaged in the property development. Ezhou Jinfeng and Tianhe Property own the Honglianhu Project, a residential and ancillary commercial property project in Ezhou city, Hubei province. On 22 Jun 2009, Tianhe Property acquired 95% interest in Ezhou Jinfeng from Shenzhen Honglianhu Investment Co. Ltd. at a cash consideration of approximately RMB62.6 million. The acquisition has been accounted for as acquisition of assets as Ezhou Jinfeng does not constitute a business.

b) Financial Overview

1. For the year ended 31 December 2009

Profit and loss

For the year ended 31 December 2009, Tianhe Property Group had not completed any property development project and therefore no revenue was generated.

Other income of approximately RMB0.9 million for the year mainly represented the interest income on the investment cost contributed by Tianhe Property in a proposed shopping mall project. In 2005, Tianhe Property planned to jointly develop a shopping mall together with 武漢國信房地產開發有限公司 (Wuhan Guoxin Real Estate Development Company Limited) ("Wuhan Guoxin"). In 2011, Tianhe Property decided to divest from the project and Wuhan Guoxin agreed to pay back Tianhe Property the investment cost together with the interest and therefore the relevant interest income was recognized during the investment period. Administrative expenses and finance costs amounted to approximately RMB0.2 million and RMB0.6 million, respectively.

Profit before tax and profit for the year attributable to the owners of the parent was approximately RMB52,000.

Liquidity, financial position and capital structure

During the year ended 31 December 2009, Tianhe Property Group funded its operations mainly by amount due to shareholders. As at 31 December 2009, Tianhe Property Group had cash and cash equivalents of approximately RMB126,000, all denominated in RMB.

During the year ended 31 December 2009, Tianhe Property Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2009, the current assets and current liabilities of Tianhe Property Group were approximately RMB385.2 million and RMB205.9 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 1.9 times as at 31 December 2009.

Tianhe Property Group's total assets and total liabilities (including non-controlling interests) as at 31 December 2009 amounted to approximately RMB442.3 million and RMB209.2 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 47.3% as at 31 December 2009.

Significant acquisition and disposal

Save for the acquisition of Ezhou Jinfeng, there was no material acquisition or disposal of subsidiary by Tianhe Property Group during the year ended 31 December 2009.

Significant investments

Save for the investment in unconsolidated subsidiaries – 武漢楚天時代創業投資擔保有限公司 (Wuhan Chutian Era Venture & Guarantee Company Limited) ("Chutian Era") and 武漢宏博投資有限公司 (Wuhan Hongbo Investment Company Limited) ("Hongbo"), there were no significant investments held by Tianhe Property Group as at 31 December 2009.

Tianhe Property had 50.51% and 70% interests in two unconsolidated subsidiaries – Chutian Era and Hongbo, respectively, as at 31 December 2009. Chutian Era was a company established in the PRC with limited liability and was principally engaged in the investment guarantee business. Hongbo was a company established in the PRC with limited liability and was principally engaged in the investment business.

For details of the non-consolidation of Chutian Era and Hongbo, please refer to the section headed "Adverse opinion in respect of the financial information of Tianhe Property Group and Tianhe Group" in this Appendix.

Charges on Tianhe Property Group assets

As at 31 December 2009, none of Tianhe Property Group's assets were pledged.

Contingent liabilities

Tianhe Property Group did not have any significant contingent liabilities as at 31 December 2009.

Dividend

Tianhe Property Group did not declare or pay dividend for the year ended 31 December 2009.

2. For the year ended 31 December 2010

Profit and loss

For the year ended 31 December 2010, Tianhe Property Group had not completed any property development project and therefore no revenue was generated.

Other income of approximately RMB1.0 million for the year was mainly contributed by the interest income generated from the investment cost in a shopping mall project as discussed in the sub-paragraph headed "Financial overview – for the year ended 31 December 2009" above. Administrative expenses and finance costs amounted to approximately

RMB0.1 million and RMB1.6 million, respectively. The increase in finance cost from approximately RMB0.6 million in 2009 to approximately RMB1.6 million in 2010 was mainly due to increase in interest expenses on borrowings from Hubei Tianranju.

Loss before tax and loss for the year attributable to the owners of the parent was approximately RMB0.7 million. Comparing with profit before tax and profit for the year attributable to the owners of the parent of approximately RMB52,000 in 2009, Tianhe Property Group recorded loss in 2010 mainly due to the increase in finance costs as discussed above.

Liquidity, financial position and capital structure

During the year ended 31 December 2010, Tianhe Property Group funded its operations mainly by amount due to its shareholders. As at 31 December 2010, Tianhe Property Group had cash and cash equivalents of approximately RMB1.4 million, all denominated in RMB.

During the year ended 31 December 2010, Tianhe Property Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2010, the current assets and current liabilities of Tianhe Property Group were approximately RMB370.1 million and RMB184.4 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 2.0 times as at 31 December 2010 (31 December 2009: 1.9 times).

Tianhe Property Group's total assets and total liabilities (including non-controlling interests) as at 31 December 2010 amounted to approximately RMB420.1 million and RMB187.7 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 44.7% as at 31 December 2010 (31 December 2009: 47.3%). The decrease in gearing ratio was primarily due to partial settlement of other payables and repayment of borrowings from shareholders.

Significant acquisition and disposal

Save for the disposal of Hongbo, there was no material acquisition or disposal of subsidiary by Tianhe Property Group during the year ended 31 December 2010.

On 24 November 2010, Tianhe Property disposed its 70% interest in an unconsolidated subsidiary – Hongbo for cash consideration of RMB7 million at investment cost. Hongbo was a company established in the PRC with limited liability and was principally engaged in the investment business.

Significant investments

Save for the investment in unconsolidated subsidiary – Chutian Era, there were no significant investments held by Tianhe Property Group as at 31 December 2010.

Tianhe Property had 50.51% interest in an unconsolidated subsidiary – Chutian Era as at 31 December 2010. Chutian Era was a company established in the PRC with limited liability and was principally engaged in the investment guarantee business.

For details of the non-consolidation of Chutian Era, please refer to the section headed "Adverse opinion in respect of the financial information of Tianhe Property Group and Tianhe Group" in this Appendix.

Charges on Tianhe Property Group assets

As at 31 December 2010, none of Tianhe Property Group's assets were pledged.

Contingent liabilities

Tianhe Property Group did not have any significant contingent liabilities as at 31 December 2010.

Dividend

Tianhe Property Group did not declare or pay dividend for the year ended 31 December 2010.

3. For the year ended 31 December 2011

Profit and loss

For the year ended 31 December 2011, Tianhe Property Group had not completed any property development project and therefore no revenue was generated.

Other income of approximately RMB1.1 million for the year was mainly contributed by the interest income generated from the investment cost in a shopping mall project as discussed in the sub-paragraph headed "Financial overview – for the year ended 31 December 2009" above. Administrative expenses amounted to approximately RMB3.9 million, which was significantly higher than approximately RMB0.1 million in 2010. During the year, Tianhe Property hired more management staff to manage and co-ordinate the Honglianhu residential and ancillary commercial project. Therefore, more rental, traveling and other administrative expenses were included.

Loss before tax and loss for the year attributable to the owners of the parent was approximately RMB2.9 million. The increase in loss before tax and loss for the year attributable to the owners of the parent as compared with the year ended 31 December 2010 was mainly due to the increase in administrative expenses as discussed above.

Liquidity, financial position and capital structure

During the year ended 31 December 2011, Tianhe Property Group funded its operations mainly by internal resources. As at 31 December 2011, Tianhe Property Group had cash and cash equivalents of approximately RMB8.7 million, denominated in RMB.

During the year ended 31 December 2011, Tianhe Property Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2011, the current assets and current liabilities of Tianhe Property Group were approximately RMB271.9 million and RMB89.2 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 3.0 times as at 31 December 2011 (31 December 2010: 2.0 times). The increase in current ratio was mainly due to the repayment of amount due to shareholder and the settlement of other payables and accruals of approximately RMB81.3 million during the year.

Tianhe Property Group's total assets and total liabilities (including non-controlling interests) as at 31 December 2011 amounted to approximately RMB322.1 million and RMB92.5 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 28.7% as at 31 December 2011 (31 December 2010: 44.7%). The decrease in gearing ratio was mainly due to the repayment of amount due to shareholder and the settlement of other payables and accruals of approximately RMB81.3 million during the year.

Significant acquisition and disposal

There was no material acquisition or disposal of subsidiary by Tianhe Property Group during the year ended 31 December 2011.

Significant investments

Save for the investment in unconsolidated subsidiary – Chutian Era, there were no significant investments held by Tianhe Property Group as at 31 December 2011.

Tianhe Property had 50.51% interest in an unconsolidated subsidiary – Chutian Era as at 31 December 2011. Chutian Era was a company established in the PRC with limited liability and was principally engaged in the investment guarantee business.

For details of the non-consolidation of Chutian Era, please refer to the section headed "Adverse opinion in respect of the financial information of Tianhe Property Group and Tianhe Group" in this Appendix.

Charges on Tianhe Property Group assets

As at 31 December 2011, part of the Honglianhu residential and ancillary commercial project with carrying amount of approximately RMB135.9 million were pledged to secure banking facilities of RMB150.0 million granted to PKU Resource. The pledge was subsequently released in August 2012.

Contingent liabilities

As at 31 December 2011, Tianhe Property Group provided a guarantee to a bank in favour of PKU Resource for banking facilities of RMB150.0 million.

Dividend

Tianhe Property Group did not declare or pay dividend for the year ended 31 December 2011.

4. For the five months ended 31 May 2012

Profit and loss

For the period ended 31 May 2012, Tianhe Property Group had not completed any property development project and therefore no revenue was generated.

Other income of approximately RMB0.5 million for the period was mainly contributed by the interest income generated from the investment cost in a shopping mall project as discussed in the sub-paragraph headed "Financial overview – for the year ended 31 December 2009" above. Administrative expenses amounted to approximately RMB1.7 million, which was slightly lower than approximately RMB1.9 million in the corresponding period in 2011 as higher cost was incurred at the initial preparation stage of Honglianhu residential and ancillary commercial project.

Loss before tax and loss for the period attributable to the owners of the parent was approximately RMB1.1 million, which was lower than the loss before tax and loss for the period attributable to the owners of the parent of approximately RMB1.4 million in the corresponding period in 2011. The decrease in loss was mainly due to the lower administrative expenses in 2012 as discussed above.

Liquidity, financial position and capital structure

During the period ended 31 May 2012, Tianhe Property Group funded its operations mainly by internal resources. As at 31 May 2012, Tianhe Property Group had cash and cash equivalents of approximately RMB3.2 million, all denominated in RMB.

During the period ended 31 May 2012, Tianhe Property Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 May 2012, the current assets and current liabilities of Tianhe Property Group were approximately RMB268.9 million and RMB37.7 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 7.1 times as at 31 May 2012 (31 December 2011: 3.0 times). The increase in current ratio was primarily due to the settlement of other payables during the period.

Tianhe Property Group's total assets and total liabilities (including non-controlling interests) as at 31 May 2012 amounted to approximately RMB269.4 million and RMB40.9 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 15.2% as at 31 May 2012 (31 December 2011: 28.7%). The decrease in gearing ratio was primarily due to the settlement of other payables during the period.

Significant acquisition and disposal

Save for the disposal of Chutian Era, there was no material acquisition or disposal of subsidiary by Tianhe Property Group during the period ended 31 May 2012.

On 29 May 2012, Tianhe Property disposed its 50.51% interest in an unconsolidated subsidiary – Chutian Era for cash consideration of RMB50 million at investment cost. Chutian Era is a company established in the PRC with limited liability and was principally engaged in the investment guarantee business.

For details of the non-consolidation of Chutian Era, please refer to the section headed "Adverse opinion in respect of the financial information of Tianhe Property Group and Tianhe Group" in this Appendix.

Significant investments

There were no significant investments held by Tianhe Property Group as at 31 May 2012.

Charges on Tianhe Property assets

As at 31 May 2012, part of the Honglianhu residential and ancillary commercial project with carrying amount of approximately RMB138.0 million were pledged to secure banking facilities of RMB150.0 million granted to PKU Resource. The pledge was subsequently released in August 2012.

Contingent liabilities

As at 31 May 2012, Tianhe Property Group provided a guarantee to a bank in favour of PKU Resource for banking facilities of RMB150.0 million.

Dividend

Tianhe Property Group did not declare or pay dividend for the period ended 31 May 2012.

c) Employment and remuneration policy

Tianhe Property Group had a total of 8, 22 and 24 employees for the two years ended 31 December 2011 and the five months ended 31 May 2012, respectively. The remuneration policy is set out by the board of directors of companies comprising Tianhe Property Group on the basis of their experience, merit, qualifications and competence. Apart from basic salaries, annual target performance related bonuses were awarded to certain staffs.

Currently there are no share option schemes available for employees of Tianhe Property Group. Internal and external technical and professional training is provided to employees.

The PRC employees of Tianhe Property Group are members of a state-managed retirement benefit scheme operated by the local government. Tianhe Property Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of Tianhe Property Group with respect to the retirement benefit scheme is to make the specified contributions. During the three years ended 31 December 2011 and the five months period ended 31 May 2012, the total employee benefit expenses of Tianhe Property Group (including total contributions to the retirement benefit schemes) was approximately RMBnil, RMBnil, RMB1.7 million and RMB0.9 million, respectively.

d) Outlook and future prospects of Tianhe Property Group

The major business of Tianhe Property Group is the development of the Honglianhu Project in Ezhou. The expected development period of the Honglianhu Project is from 2013 to 2019.

The Honglianhu Project is located in the Honglianhu Tourism New Town (紅蓮湖旅游新城), Ezhou city, Hubei province. Traditionally an industrial and agricultural province, Hubei province ranked 11th in China in terms of GDP in 2011. The property project is located adjacent to Honglianhu Lake and Honglianhu golf course, and is in close proximity to Wuhan city. The proposed villa type of property of the project, coupled with the scenic surroundings and the established transportation network, is expected to be well received by potential buyers. It is believed that the Honglianhu Project will generate long term return on investment for the Group.

(IV) MANAGEMENT DISCUSSION AND ANALYSIS OF TIANHE GROUP

a) Overview

Tianhe is an investment holding company incorporated in Hong Kong on 6 October 2010 with limited liability. On 9 March 2011, Tianhe acquired 90% interest in Tianhe Property at a cash consideration of approximately RMB81.7 million. During the period under review, except holding the entire equity interests in Tianhe Property, Tianhe has not commenced any business operation.

b) Financial overview

1. For the period from 6 October 2010 (date of incorporation) to 31 December 2010

Profit and loss

For the period ended 31 December 2010, Tianhe had not commenced any business operation and therefore no revenue was generated.

Loss for the period attributable to the owners of the parent was approximately RMB15,000, being the administrative expenses incurred.

Liquidity, financial position and capital structure

During the period ended 31 December 2010, Tianhe funded its operations mainly by the amount due to its shareholder. As at 31 December 2010, Tianhe had cash and cash equivalents of approximately RMB8,000, all denominated in HK$.

During the year ended 31 December 2010, Tianhe did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2010, the current assets and current liabilities of Tianhe were approximately RMB8,000 and RMB14,000, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 0.6 times as at 31 December 2010.

Tianhe's total assets and total liabilities as at 31 December 2010 amounted to approximately RMB8,000 and RMB14,000, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 175.0% as at 31 December 2010. The high gearing was due to the fact that Tianhe was mainly funded by the advance from its shareholder with no commercial operation during the period.

Significant acquisition and disposal

There was no material acquisition or disposal of subsidiary by Tianhe Group during the year ended 31 December 2010.

Significant investments

There were no significant investments held by Tianhe Group as at 31 December 2010.

Charges on Tianhe assets

As at 31 December 2010, none of Tianhe Group's assets were pledged.

Contingent liabilities

Tianhe Group did not have any significant contingent liabilities as at 31 December 2010.

Dividend

Tianhe did not declare or pay dividend for the period ended 31 December 2010.

2. For the year ended 31 December 2011

Profit and loss

For the year ended 31 December 2011, Tianhe Group had not completed any property development project and therefore no revenue was generated.

Other income and gains of approximately RMB195.7 million for the year was mainly contributed by the gain on bargain purchase upon acquisition of Tianhe Property in March 2011. Administrative expenses amounted to approximately RMB3.3 million, which was significantly higher than approximately RMB15,000 in 2010. The increase was mainly attributable to the administrative expenses incurred by Tianhe Property after the acquisition of 90% equity interests in Tianhe Property by Tianhe in March 2011.

Profit before tax and profit for the period attributable to the owners of the parent was approximately RMB192.5 million and RMB192.7 million, respectively which was mainly contributed by the extraordinary gain on bargain purchase upon acquisition of Tianhe Property during the year.

Liquidity, financial position and capital structure

During the year ended 31 December 2011, Tianhe Group funded its operations mainly by internal resources. As at 31 December 2011, Tianhe Group had cash and cash equivalents of approximately RMB8.7 million, majority of which was denominated in RMB.

During the year ended 31 December 2011, Tianhe Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 December 2011, the current assets and current liabilities of Tianhe Group were approximately RMB368.0 million and RMB171.0 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 2.2 times as at 31 December 2011 (31 December 2010: 0.6 times). The increase in current ratio was mainly due to increase in net current assets resulting from the acquisition of 90% equity interests in Tianhe Property by Tianhe in March 2011.

Tianhe Group's total assets and total liabilities (including non-controlling interests) as at 31 December 2011 amounted to approximately RMB418.2 million and RMB225.6 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 53.9% as at 31 December 2011 (31 December 2010:

175.0%). The decrease in gearing ratio was mainly due to the increase in total assets resulting from the acquisition of 90% equity interests in Tianhe Property by Tianhe in March 2011.

Significant acquisition and disposal

Save for the acquisition of Tianhe Property Group, there was no material acquisition or disposal of subsidiary during the year ended 31 December 2011.

Significant investments

Save for the investment in its unconsolidated subsidiary – Chutian Era, there were no significant investments held by Tianhe Group as at 31 December 2011.

Tianhe Property had 50.51% interest in an unconsolidated subsidiary – Chutian Era as at 31 December 2011. Chutian Era was a company established in the PRC with limited liability and was principally engaged in the investment guarantee business.

For details of the non-consolidation of Chutian Era, please refer to the section headed "Adverse opinion in respect of the financial information of Tianhe Property Group and Tianhe Group" in this Appendix.

Charges on the Tianhe Group's assets

As at 31 December 2011, part of the Honglianhu residential and ancillary commercial project with carrying amount of approximately RMB232.1 million were pledged to secure banking facilities of RMB150.0 million granted to PKU Resource. The pledge was subsequently released in August 2012.

Contingent liabilities

As at 31 December 2011, Tianhe Group provided a guarantee to a bank in favour of PKU Resource for banking facilities of RMB150.0 million.

Dividend

Tianhe Group did not declare or pay dividend for the year ended 31 December 2011.

3. For the five months ended 31 May 2012

Profit and loss

For the five months ended 31 May 2012, Tianhe Group has not completed any property development project and therefore no revenue was generated.

Other income of approximately RMB0.5 million for the period mainly represented the interest income on the investment cost made by Tianhe Property in a proposed shopping mall project. In 2005, Tianhe Property planned to jointly develop a shopping mall together with Wuhan Guoxin. In 2011, Tianhe Property decided to divest from the project and Wuhan Guoxin agreed to pay back Tianhe Property the investment cost together with the interest and the relevant interest was recognized during the investment period. Administrative expenses amounted to approximately RMB1.7 million, which was slightly higher than approximately RMB1.2 million in the corresponding period in 2011. Administrative expenses were mainly from Tianhe Property Group, which was only acquired by Tianhe in March 2011. Therefore, higher administrative expenses were recorded in the five months ended 31 May 2012 as compared with the corresponding period in 2011.

Loss before tax and loss for the period attributable to the owners of the parent was approximately RMB1.1 million and RMB1.0 million, respectively. Comparing with profit before tax and profit for the period attributable to the owners of the parent of approximately RMB194.0 million in 2011, Tianhe Group reported loss in 2012 as no extraordinary gain on bargain purchase upon acquisition of Tianhe Property was recorded in 2012.

Liquidity, financial position and capital structure

During the period ended 31 May 2012, Tianhe Group funded its operations mainly by internal resources. As at 31 May 2012, Tianhe Group had cash and cash equivalents of approximately RMB3.2 million, majority of which was denominated in RMB.

During the period ended 31 May 2012, Tianhe Group did not have a formal hedging policy and no financial instrument was used for hedging purpose.

As at 31 May 2012, the current assets and current liabilities of Tianhe Group were approximately RMB365.0 million and RMB119.4 million, respectively. The current ratio, represented by current assets as a percentage of current liabilities, was approximately 3.1 times as at 31 May 2012 (31 December 2011: 2.2 times). The increase in current ratio was mainly due to the settlement of other payables and accruals during the period.

Tianhe Group's total assets and total liabilities (including non-controlling interests) as at 31 May 2012 amounted to approximately RMB365.5 million and RMB173.9 million, respectively. The gearing ratio, represented by total liabilities as a percentage of total assets, was approximately 47.6% as at 31 May 2012 (31 December 2011: 53.9%). The decrease in gearing ratio was mainly due to the settlement of other payables and accruals during the period.

Significant acquisition and disposal

Save for the disposal of Chutian Era, there was no material acquisition or disposal of subsidiary by Tianhe Group during the period ended 31 May 2012.

On 29 May 2012, Tianhe Property disposed its 50.51% interest in an unconsolidated subsidiary – Chutian Era for cash consideration of RMB50 million at investment cost. Chutian Era is a company established in the PRC with limited liability and was principally engaged in the investment guarantee business.

For details of the non-consolidation of Chutian Era, please refer to the section headed "Adverse opinion in respect of the financial information of Tianhe Property Group and Tianhe Group" in this Appendix.

Significant investments

There were no significant investments held by Tianhe Group as at 31 May 2012.

Charges on Tianhe Group's assets

As at 31 May 2012, part of the Honglianhu residential and ancillary commercial project with carrying amount of approximately RMB234.2 million were pledged to secure banking facilities of RMB150.0 million granted to PKU Resource. The pledge was subsequently released in August 2012.

Contingent liabilities

As at 31 May 2012, Tianhe Group provided a guarantee to a bank in favour of PKU Resource for banking facilities of RMB150.0 million.

Dividend

Tianhe Group did not declare or pay dividend for the five months ended 31 May 2012.

c) Employment and remuneration policy

Tianhe Group had a total of 8, 22 and 24 employees for the two years ended 31 December 2011 and the five months ended 31 May 2012, respectively. The remuneration policy is set out by the board of directors of the companies comprising Tianhe Group on the basis of their experience, merit, qualifications and competence. Apart from basic salaries, annual target performance related bonuses were awarded to certain staffs.

Currently there are no share option schemes available for employees of Tianhe Property Group. Internal and external technical and professional training is provided to employees.

The PRC employees of Tianhe Group are members of a state-managed retirement benefit scheme operated by the local government. Tianhe Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of Tianhe Group with respect to the retirement benefit scheme is to make the specified contributions. During the two years ended 31 December 2011 and the five months period ended 31 May 2012, the total employee benefit expenses of Tianhe Group (including total contributions to the retirement benefit schemes) was approximately RMBnil, RMB1.5 million and RMB0.9 million, respectively.

d) Outlook and future prospects of Tianhe Group

As the only business of Tianhe is the holding of 90% equity interests of Tianhe Property, please refer to the paragraph headed "(III) Management discussion and analysis of Tianhe Property Group – Outlook and future prospectus of Tianhe Property Group" above for the outlook and future prospects of Tianhe Group.

(V) ADVERSE OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF TIANHE PROPERTY GROUP AND TIANHE GROUP

As explained in note 2.2 of Section II of the accountants' report on Tianhe Property set out in Appendix II(C) to this circular, the results of two subsidiaries namely Chutian Era and Hongbo are not consolidated from the date of acquisition, which is required by HKAS27 (Revised) *Consolidated and Separate Financial Statements* because in the opinion of the Directors, the primary purpose of the financial information is to provide information of the current structure of Tianhe Property Group and these two subsidiaries were respectively disposed of on 29 May 2012 and 24 November 2010 without retaining the books and records by Tianhe Property Group, and accordingly the preparation of financial information to consolidate the results of the two subsidiaries would involve expense and delay for the purpose of the preparation of this circular.

As explained in note 2.2 of Section II of the accountants' report on Tianhe set out in Appendix II(D) to this circular, the results of a subsidiary namely Chutian Era are not consolidated from the date of acquisition, which is required by HKAS27 (Revised)

Consolidated and Separate Financial Statements because in the opinion of the directors, the primary purpose of the financial information is to provide information of the current structure of Tianhe Group and the subsidiary was disposed of on 29 May 2012 without retaining the books and records by Tianhe Group, and accordingly the preparation of financial information to consolidate the results of this subsidiary would involve expense and delay for the purpose of the preparation of this circular.

Due to the insufficiency in accounting information of Chutian Era and Hongbo, the financial positions, results, and cash flows of Chutian Era and Hongbo have not been consolidated in the financial information of Tianhe Property Group from the date of acquisition to their respective date of disposal and the financial positions, results, and cash flows of Chutian Era have not been consolidated in the financial information of Tianhe Group from the date of acquisition to its date of disposal. Accordingly, the investments in Chutian Era and Hongbo were carried at cost less impairment.

The exclusion of the financial positions, results, and cash flows of the two subsidiaries in the financial information of Tianhe Property Group or Tianhe Group is a departure from the requirements of HKAS 27. As a consequence, (i) the financial information does not give all the information required about the economic activities of Tianhe Property Group from 1 January 2009 to the respective date of disposal of the two subsidiaries, and the resulting gain or loss on disposal upon the disposal of these two subsidiaries. Any adjustments that would be required may have a consequential significant effect on the consolidated financial positions of Tianhe Property Group as at 31 December 2009, 2010 and 2011 and the consolidated results and cash flows of Tianhe Property Group for each of three years ended 31 December 2011 and the five months ended 31 May 2012; and (ii) the financial information does not give all the information required about the economic activities of Tianhe Group from 9 March 2011 to the date of disposal of Chutian Era, and the resulting gain or loss on disposal upon the disposal of Chutian Era. Any adjustments that would be required may have a consequential significant effect on the consolidated financial positions of Tianhe Group as at 31 December 2011 and the consolidated results and cash flows of Tianhe Group for the year ended 31 December 2011 and the five months ended 31 May 2012. It is not practicable to quantify the effects of the departure from this requirement.

Based on the above, the reporting accountants of the Company (the "Reporting Accountants") have issued adverse opinion in respect of (i) the state of affairs of Tianhe Property Group as at 31 December 2009, 2010 and 2011 and the consolidated results and cashflow of Tianhe Property Group for the three years ended 31 December 2011 and the five months ended 31 May 2012; and (ii) the state of affairs of Tianhe Group as at 31 December 2011 and the consolidated results and cashflow for the year ended 31 December 2011 and the five months ended 31 May 2012.

As explained above, the failure to consolidate the results of Chutian Era and Hongbo was mainly due to insufficient books and records being retained by Tianhe Property Group and Tianhe Group in the past and the relevant subsidiaries have already been disposed of by end of May 2012. Therefore, the non-consolidation of the results of Chutian Era and Hongbo will no longer affect the results of Tianhe Property Group and Tianhe Group since the dates of the relevant disposal, which were before the Completion Date. In addition, as the results of the Acquired Group will only be consolidated into the Group's financial statements from the Completion Date, the non-consolidation of Chutian Era and Hongbo by Tianhe Property before the Completion will not have any impact on the Company's consolidated financial statements and audit opinion after Completion. Upon completion of the Acquisition, the Group will review the accounting and internal control systems of the Acquired Group and implement necessary improvements to make sure proper books and records are retained and sufficient accounting and internal control procedures are in place to protect the interest of the Group and the Shareholders.

Given the fact that Chutian Era and Hongbo are not members of the Acquired Group under the Acquisition, the Directors are of the view that the information contained in this circular provides sufficient information to enable the Shareholders to make an informed assessment of the acquisition and the aforesaid adverse opinion on Tianhe Property Group and Tianhe Group would not have material adverse implications on the transactions being contemplated under the S&P and Subscription Agreement.

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuations as at 31 August 2012 of the property interests held by the Acquired Group.

利駿行測量師有限公司
L C H (Asia-Pacific) Surveyors Limited
PROFESSIONAL SURVEYOR
PLANT AND MACHINERY VALUER
BUSINESS & FINANCIAL SERVICES VALUER

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standard 2011 (the "IVS") published by the International Valuation Standards Council as well as the HKIS Valuation Standards on Properties, First Edition, 2005 (the "HKIS Standards") published by the Hong Kong Institute of Surveyors (the "HKIS"). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader's identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute to this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusion.

17th Floor
Champion Building
Nos. 287 – 291
Des Voeux Road Central
Hong Kong

16 November 2012

The Board of Directors
EC-Founder (Holdings) Company Limited
14th Floor, Cable TV Tower
No. 9 Hoi Shing Road
Tsuen Wan
Hong Kong

Dear Sirs,

In accordance with the instruction given to us by the management of EC-Founder (Holdings) Company Limited (hereinafter referred to as the "Company") to value certain designated properties i.e. real properties in which the Company and its subsidiaries (collectively, hereinafter together with the Company referred to as the "Group") have intention to acquire in the People's Republic of China (hereinafter referred to as the "PRC" or "China"), we confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings and our conclusion of values of the property interests as at 31 August 2012 (hereinafter referred to as the "Date of Valuation") for the Company's internal management reference purpose. We were given to understand that the properties valued are either held by Hong Kong Tianhe Holdings Limited or Hong Kong Tianranju Holdings Limited and their respective subsidiaries (collectively, hereinafter referred to as the "Acquired Group").

We understand that the use of our work product (regardless of form of presentation) will form part of the Company's due diligence but we have not been engaged to make specific sales or purchase recommendations, or give opinion for financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision regarding the properties valued. Our work is designed solely to provide information that will give the management of the Company a reference in its due diligence process, and our work should not be the only factor to be referenced by the Company. Our findings and conclusion of values of the property interests are documented in a valuation report and submitted to the Company at today's date.

At the request of the management of the Company, we prepared this summary report (including this letter, summary of values and a valuation certificate) to summarise our findings and conclusions as documented in the valuation report for the purpose of inclusion in this circular at today's date for the Company's shareholders' reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also applied to this summary report.

According to the IVS, which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value i.e. non-market value. In this engagement, having considered the inherent characteristics of each property, we have classified the properties valued into two categories of basis of valuation, namely, Category A – Market Value Basis and Category B – Non-market Value Basis (Investment Value). Properties in Category A including properties in Groups I and II, and properties in Category B including properties in Groups III and IV.

VALUATIONS OF PROPERTIES IN CATEGORY A WITH LONG-TERM TITLE CERTIFICATES

Basis of Valuation and Assumptions

The term "Market Value" is defined by the HKIS Standards as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Unless otherwise stated, our valuations of the properties have been made on the assumptions, that, as at the Date of Valuation:

1. the legally interested party in each of the properties has absolute title to its relevant property interests;

2. the legally interested party in each of the properties has free and uninterrupted rights to assign its relevant property interests for the whole of the unexpired term as granted, and any premiums payable have already been fully paid;

3. the legally interested party in each of the properties sells its relevant property interest in the market in its existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the property interest;

4. the properties have obtained relevant government's/organisation's approvals for the sale of the properties and are able to be disposed of and transferred free of all encumbrances (including but not limited to the cost of transaction) in the market; and,

5. the properties can be freely disposed and transferred free of all encumbrances at the Date of Valuation for their existing uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to our valuations.

Approach to Value

There are three generally accepted approaches in arriving at the market value of a property on an absolute title basis, namely the Sales Comparison Approach (or known as the Market Approach), the Cost Approach and the Income Approach.

In valuing Property No. 1 in Group I, we have adopted the Sales Comparison Approach on the assumption that the property was sold with the benefit of vacant possession as at the Date of Valuation. This approach considers the sales, listing or offerings of similar or substitute properties and related market data to establish a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

In valuing Property Nos. 2 and 3 in Group II which are currently under development, we have assumed that it will be developed and completed in accordance with the Acquired Group's latest development proposals provided to us. In arriving at our opinion of values, we have adopted the Sales Comparison Approach in valuing the subject land use rights by making reference to comparable sales transactions in the locality and have taken into account the costs incurred either for initial preparation works or for construction in progress items as at the Date of Valuation.

Unless otherwise stated, we have not carried out a valuation on alternative development basis and the study of possible alternative development options and the related economics do not come within the scope of our work.

ASSESSMENTS OF INVESTMENT VALUE OF PROPERTIES IN CATEGORY B WITH RESTRICTED TITLES

In assessing the properties in this category, we have attributed no commercial values to the properties as transferability of these properties is subject to approval from relevant government authorities or payment of additional land premium. However, for the Company's internal management reference purpose, we reported the investment value of these properties in their existing state to the Acquired Group in the report.

According to the IVS, which the HKIS Standards follows, it considered that investment value is an entity-specific basis of value, and the value reflects the circumstances and financial objectives of the entity to which the valuation is being prepared, and regarded as a going concern value. The HKIS Standards further elaborated that under the context of investment value, an investor includes an owner-occupier.

The investment value also reflects the benefits received by an entity from holding the property (such as rental income) and therefore, does not necessarily involve a hypothetical exchange. Thus, a property which has no commercial value due to restrictions (say, additional premium or administrative procedures are required) to dispose the property on stand alone basis in the open market does not necessarily represent it has no value contribution to its holding company.

Through a transaction of the shares of the holding company (a part of or the whole of) of which the property forms part of the company's assets in the balance sheet, the property could contribute to the business enterprise value of the company, and that is its investment value.

In other words, through exchange of the shares of the holding company on going concern basis, the property could be exchanged as part of the assets of the company. Differences between the investment value of a property and its stand alone market value provide the motivation for buyers and sellers to enter the marketplace by eliminating the restrictions, say to pay the premium or to comply with the development covenants imposed by the local government.

Unless otherwise stated, the investment values of the properties have been made on the assumptions, that, as at the Date of Valuation:

1. the legally interested party in each of the properties maintained its title to the property till the expiration of the granted land use term, and that the granted terms and conditions would remain unchanged during the residual land use term;

2. the legally interested party in each of the properties maintained its right to receive rental income from the property till the end of the granted land use term, and that the relevant permits or official policies could be renewed or maintained till the end of the granted or agreed land use term;

3. there would not have any restriction to the allowable lettable areas of the properties (as advised on site by the appointed personnel of the Acquired Group);

4. the local authorities would continue the existing practice to approve the legally interested party in each of the properties to lease out the property (the whole of or a portion of) to tenants or potential tenants; and

5. the properties can be leased out free of further encumbrances for its existing use in the market to both local and overseas tenants without payment of any premium or further property tax or the like to the government.

We need to state that the reported investment values of the properties are not intended to represent the amounts that might be realised from disposition of the properties on piecemeal basis or as a whole basis in the open market i.e. their market values. The Company or interested party in the properties is reminded to seek their own legal opinion on the transferability of these properties before entering any commercial decision with regard to these properties.

Should any of the above not be the case, it will have adverse impact to the values reported.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the rights to revise our report and valuations accordingly.

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties valued nor any expenses or taxation which may be incurred in affecting a sale of each property in Category A. Unless otherwise stated, it is assumed that the properties in Category A are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

In our valuations, we have assumed that the properties in Category A are able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported values significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported values in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the values reported herein.

ESTABLISHMENTS OF TITLES

Based on the purpose of this engagement, the management of the Company provided us the necessary copies of documents to support the legally interested party in each of the properties (in this instance, the Acquired Group) has free and uninterrupted rights to transfer, to mortgage or to let its relevant property interests for the whole of the unexpired terms as granted free of all encumbrances and any premiums payable have already been paid in full, or outstanding procedures have been completed, and that the Acquired Group has the right to occupy and to use the properties. However, our procedures to value, as agreed with the management of the Company, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the management of the Company that this should be the responsibility of the legal advisor to the management of the Company. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

The land registration system of China forbids us to search the original documents of the properties that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copies of document and the copy of the PRC legal opinion provided by the management of the Company with regard to the legal title of the properties. We were given to understand that the PRC legal opinion was prepared by a qualified PRC legal adviser 海問律師事務所 (Haiwen & Partners) dated 16 November 2012. No responsibility or liability from our part is assumed in relation to the legal opinion.

In our report, we have assumed that the Acquired Group has obtained all the approval and/or endorsement from the relevant authorities for the properties, and that there would have no legal impediment (especially from the regulators) for the Acquired Group to continue its titles in the properties. Should this not be the case, it will affect the reported values in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH VALUATION STANDARD 4 OF THE HKIS STANDARDS

We have conducted inspections to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of this engagement. The inspections were conducted by our graduate surveyors, namely Mr Terry Fung and Mr Eugene Lai during the period of January 2012 to May 2012. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in a reasonable condition. We cannot express an opinion about or advise upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and the official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the properties that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect, and therefore we have not considered such factor in our valuations.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported or affect our findings.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VALUATION STANDARD 5 OF THE HKIS STANDARDS

In the course of our work, we have been provided with copies of documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures to value did not require us to conduct any searches or inspect the original documents to verify the ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company.

We have relied solely on the information provided by the management of the Company or the Acquired Group or its appointed personnel without further verification, and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, lettings, rentals, site and floor areas, and all other relevant matters.

The scope of valuations has been determined by reference to the property list provided by the management of the Company. All properties on the list have been included in our report. The management of the Company has confirmed to us that the Company has no property interests other than those specified on the list supplied to us and included in this report.

For the purpose of compliance with Rule 11.3 of the Codes of Takeovers and Mergers as advised by the Company, the potential tax liabilities which may arise from the sale of the properties including Business Tax and related surcharge at 6.25%, Enterprise Income Tax on the taxable income from the sale of the properties at 25%, and Land Value Appreciation Tax at an progressive tax rates ranging from 30% to 60% on the taxable gains from the sale of the properties. While we understand that the properties are held by the Acquired Group either for their future use or for development projects, we were advised by the Company that the Acquired Group has not yet intended to place the properties for sale on the market except a small numbers of flatted units of Property No. 3 of Group II under an approved pre-sale arrangement. However, we were further advised by the Company that not until the completion of the development project and the close of the final accounts, no potential tax liabilities in respect of the properties would be crystallized. As such, we have not taken into account of any such potential tax liabilities in our valuations.

Our valuations have been made based only on the advice and information made available to us. While a limited scope of general inquiries had been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility or liability is assumed.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the management of the Company or the Acquired Group or their appointed personnel in our works, the assumptions and caveats adopted by them in arriving at their figures also applied to this report. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or the Acquired Group or their appointed personnel. Also, we have sought and received confirmation from the management of the Company or the Acquired Group or their appointed personnel that no material factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the Company and the Acquired Group of material and latent facts that may affect our works.

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or the Acquired Group or their appointed personnel. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan ("RMB").

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our findings and conclusion of values of the properties in this summary report are valid only for the stated purpose and only for the Date of Valuation, and for the sole use of the instructing party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuer accepts no responsibility whatsoever to any other person.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspections and the use of this report do not purport to be a building survey of the properties. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise this summary report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, prospectus or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this circular for the Company's shareholders' reference.

STATEMENTS

The attached summary of values and valuation certificate are prepared in line with the requirements contained in the Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in both IVS and the HKIS Standards. The valuations have been undertaken by professional surveyors (see End Notes), acting as external valuers, qualified for the purpose of these valuations.

We retain a copy of this summary report and the valuation report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the instructing party's authorisation and prior arrangement made with us. Moreover, we will add the instructing party's information into our client list for our future reference.

The analysis or valuations of the properties depend solely on the assumptions made in our report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported values significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no significant interest in the properties, the Group, the Acquired Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi
B.Sc. PgD M.Sc. RPS(GP)
Managing Director

Elsa Ng Hung Mui
B.Sc. M.Sc. RPS(GP)
Director

Notes:

1. Mr Joseph Ho Chin Choi has been conducting asset valuations and/or advisory work in Hong Kong, Macau, Taiwan, mainland China, the Philippines, Vietnam, Malaysia, Singapore, Thailand, Bangladesh, Japan, Australia, Kazakhstan, Madagascar, Scotland, Finland, Germany, Poland, Brazil, Argentina, Guyana, Venezuela, Canada and the United States of America for various purposes since 1988. He is a Fellow of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

2. Ms Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong since 1994 and has more than 13 years of experience in valuing properties in mainland China. She is a Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

SUMMARY OF VALUES

Category A. Market Value Basis

Group I – Property held by the Acquired Group under long-term title certificate in the PRC for investment purpose

	Property	Interest attributable to the Acquired Group	Amount of valuation in its existing state attributable to the Acquired Group as at 31 August 2012 *RMB*
1.	Unit 3-E of Block 6 Jincheng Building Lot No. H113-0004 Shennan Dong Road Luohu District Shenzhen city Guangdong province The PRC	100 per cent.	480,000
		Sub-total:	RMB480,000

Group II – Properties held by the Acquired Group under various long-term title certificates in the PRC for development purpose

2.	Six various parcels of vacant land located at Miaoling Town Huarong District Ezhou city Hubei province The PRC	90 per cent.	247,000,000
3.	A developing development known as PKU Resource Group – Li Cheng and erected on two various parcels of land known as Lot Nos. 10401210003 and 10401210004 and located on the western side of Zhangjiagang River and the southern side of Yingbin Road Bacheng Town Kunshan city Suzhou city Jiangsu province The PRC	51 per cent.	396,000,000
		Sub-total	RMB643,000,000
		Grand Total:	**RMB643,480,000**

Category B. Non-market Value Basis (Investment Value)

Group III – Property held by the Acquired Group in the PRC for future development purpose

	Property	Interest attributable to the Acquired Group	Reported investment value in its existing state to the Acquired Group as at 31 August 2012
			RMB
4.	A parcel of land located at Lamei Village Yaoji Town Huangpo District Wuhan city Hubei province The PRC	100 per cent.	9,000,000
		Sub-total:	RMB9,000,000

Group IV – Property held by the Acquired Group in the PRC for investment purpose

	Property	Interest attributable to the Acquired Group	Reported investment value in its existing state to the Acquired Group as at 31 August 2012
			RMB
5.	Various office units on various levels of Block Nos. A and B, Asia Plaza (also known as International Building of Wuhan) Lot No. B06241625-1 Dandong Road Jianghan District Wuhan city Hubei province The PRC	100 per cent.	160,000,000
		Sub-total:	RMB160,000,000
		Grand Total:	**RMB169,000,000**

VALUATION CERTIFICATE

Category A. Market Value Basis

Group I – Property held by the Acquired Group under long-term title certificate in the PRC for investment purpose

	Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Acquired Group as at 31 August 2012 *RMB*
1.	Unit 3-E of Block 6 Jincheng Building Lot No. H113-0004 Shennan Dong Road Luohu District Shenzhen city Guangdong province The PRC	The property comprises a residential unit on Level 3 of a 23-storeyed residential building which is erected on a 2-storeyed commercial podium. The building was completed in about 1984. From the Realty Title Certificate, it has a gross floor area of 37.16 sq. m. The property is subject to a right to use the land for a term of 50 years till 2 May 2034 for residential purpose.	As inspected and confirmed by the management of the Acquired Group, as at the Date of Valuation, the property was vacant.	480,000 (100 per cent. interest)

Notes:

1. According to a renewed 房地產證 Realty Title Certificate known as 深房地字第2000512169號 Shen Fang Di Zi Di 2000512169 Hao issued by 深圳市房地產權登記中心 Shenzhen city Real Estate Title Registration Centre on 28 September 2010 (previously known as No. 2000351400 dated 24 January 2007), the legally interested party in the property having a gross floor area of 37.16 sq. m. is 湖北天然居商業運營管理有限公司 Hubei Tianranju Business Management Limited (hereinafter referred to as "Hubei Tianranju"), which is a wholly-owned subsidiary of Hong Kong Tianranju Holdings Limited for a land use term of 50 years from 3 May 1984 to 2 May 2034 for residential purpose.

2. According to the legal opinion prepared by the Company's PRC legal adviser, Hubei Tianranju is the legally interested party in the property, and Hubei Tianranju has the right to possess and use the property in accordance with the rules and regulations in China, including to let, assign and mortgage of the property.

Group II – Properties held by the Acquired Group under various long-term title certificates in the PRC for development purpose

	Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Acquired Group as at 31 August 2012 *RMB*
2.	Six various parcels of vacant land located at Miaoling Town Huarong District Ezhou city Hubei province The PRC	The property comprises a total of 6 adjoining parcels of vacant land having a total site area of approximately 674,597.2 sq. m. *(see Notes 1 and 2 below)* The property is designated for residential usage and is subject to two various rights to use the land for two various terms till 6 August 2073 and 20 December 2073, respectively.	As inspected and confirmed by the management of the Acquired Group, as at the Date of Valuation, the property was vacant and site preparation work was in progress.	247,000,000 (90 per cent. interest) *(see Notes 1, 3 and 7 below)*

Notes:

1. According to the information provided to us, the right to use 3 of 6 various parcels of land having a total site area of 433,241.5 sq. m. has been transferred to 天合地產發展有限公司 (translated as Tianhe Property Development Limited and hereinafter referred to as "Tianhe Property"), which is a 90%-owned subsidiary of Hong Kong Tianhe Holdings Limited, by a court judgement on or before 5 September 2008. Tianhe Property obtained the following State-owned Land Use Rights Certificates to confirm its titles to the properties. They are:

   (i) Lot No. 02-01-(06)-10

   Pursuant to a 國有土地使用證 State-owned Land Use Rights Certificate known as 鄂州國用(2008)第2-55號 Ezhou Guo Yong (2008) Di 2-55 Hao dated 5 September 2008 and issued by the People's Government of Ezhou city, the legally interested party in the land having a site area of 170,035.1 sq. m. is Tianhe Property for a term till 6 August 2073 for residential usage.

   (ii) Lot No. 02-01-(06)-11

   Pursuant to a 國有土地使用證 State-owned Land Use Rights Certificate known as 鄂州國用(2008)第2-56號 Ezhou Guo Yong (2008) Di 2-56 Hao dated 5 September 2008 and issued by the People's Government of Ezhou city, the legally interested party in the land having a site area of 104,184.7 sq. m. is Tianhe Property for a term till 6 August 2073 for residential usage.

   (iii) Lot No. 02-01-(06)-12

   Pursuant to a 國有土地使用證 State-owned Land Use Rights Certificate known as 鄂州國用(2008)第2-57號 Ezhou Guo Yong (2008) Di 2-57 Hao dated 5 September 2008 and issued by the People's Government of Ezhou city, the legally interested party in the land having a site area of 159,021.7 sq. m. is Tianhe Property for a term till 6 August 2073 for residential usage.

2. According to the legal opinion as prepared by the Company's PRC legal adviser, Tianhe Property is the legally interested party in the property stated in Note 1 above, and Tianhe Property has the right to possess and use the property in accordance with the rules and regulations in China and the relevant land grant contracts, including to let, assign and mortgage of the land use rights of the property.

3. The right to use the remaining 3 various parcels of land having a total site area of 241,355.7 sq. m. has been granted to 鄂州金豐房地產開發有限公司 (translated as Ezhou Jinfeng Property Development Co., Limited and hereinafter referred to as "Ezhou Jinfeng"), which is a 95%-owned subsidiary of Tianhe Property, via the following ways:

   (i) A parcel of land having a site area of approximately 20,961.4 sq. m.

   Pursuant to a 國有土地使用證 State-owned Land Use Rights Certificate known as 鄂州國用(2003)第2-76號 Ezhou Guo Yong (2003) Di 2-76 Hao dated 9 December 2003 and issued by the People's Government of Ezhou city, the legally interested party in the land having a site area of 20,961.4 sq. m. is Ezhou Jinfeng for a term till 20 December 2073 for residential usage.

   (ii) A parcel of land having a site area of approximately 151,964.7 sq. m.

   Pursuant to a 國有土地使用證 State-owned Land Use Rights Certificate known as 鄂州國用(2003)第2-77號 Ezhou Guo Yong (2003) Di 2-77 Hao dated 9 December 2003 and issued by the People's Government of Ezhou city, the legally interested party in the land having a site area of 151,964.7 sq. m. is Ezhou Jinfeng for a term till 20 December 2073 for residential usage.

   (iii) A parcel of land having a site area of approximately 68,429.6 sq. m.

   Pursuant to a 國有土地使用證 State-owned Land Use Rights Certificate known as 鄂州國用(2003)第2-78號 Ezhou Guo Yong (2003) Di 2-78 Hao dated 9 December 2003 and issued by the People's Government of Ezhou city, the legally interested party in the land having a site area of 68,429.6 sq. m. is Ezhou Jinfeng for a term till 20 December 2073 for residential usage.

4. According to the legal opinion as prepared by the Company's PRC legal adviser, Ezhou Jinfeng is the legally interested party in the property stated in Note 3 above, and Ezhou Jinfeng has the right to possess and use the property in accordance with the rules and regulations in China and the relevant land grant contracts, including to let, assign and mortgage of the land use rights of the property.

5. According to the information provided by the Acquired Group, the property forms the subject of Honglianhu Project and is wholly owned by Tianhe Property and its subsidiary Ezhou Jinfeng. It is located in the 紅蓮湖旅游新城 Honglianhu Tourism New Town in Ezhou city of Hubei, which is part of the 紅蓮湖旅游渡假區 Honglianhu Recreation and Vacation Area ("Honglianhu Vacation Area"). Honglianhu Vacation Area is one of the first provincial-level tourism districts approved by the People's Government of Hubei province in 1994. Currently, Honglianhu Vacation Area has a golf club comprising an international standard 18-holes golf course, hotel and business center; a water sports training and competition base, as well as other travel related auxiliary facilities.

   Honglianhu Project is currently under planning and preparation stage. Upon completion, Honglianhu Project will comprise low-rise apartment buildings, high-rise residential buildings and other travel facilities. We were advised that the total investment amount of Honglianhu Project is estimated in the region of RMB3.32 billion and the estimated capital value after completion is approximately RMB4.37 billion. At present, no architectural plans or planning consent has been submitted. Having said that, it is the intention of the Acquired Group to apply for the construction planning permits and construction permits for this project in 2013, and to commence the construction under the terms conditions set by the construction planning authority. It is expected that the construction of Honglianhu Project will be started in 2013 and to be completed by 2019.

6. We were advised that, as at the Date of Valuation, the incurred initial cost of preparation work of the project was RMB14,666,000.

7. The reported amount of valuation represented 90 per cent. interest to Tianhe Property and factored in its 95 per cent. interest in Ezhou Jinfeng.

8. Pursuant to a copy of an 企業法人營業執照 Enterprise Legal Person Business License dated 9 March 2011, Tianhe Property is a Sino-foreign joint venture limited liability company with an operation period from 28 May 2001 to 27 May 2051.

	Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Acquired Group as at 31 August 2012 *RMB*
3.	A developing development known as PKU Resource – Li Cheng and erected on two various parcels of land known as Lot Nos. 10401210003 and 10401210004 and located on the western side of Zhangjiagang River and the southern side of Yingbin Road Bacheng Town Kunshan city Suzhou city Jiangsu province The PRC	The property comprises two adjoining parcels of land having a total site area of approximately 288,518 sq. m. As advised, the total planned gross floor area of PKU Resources – Li Cheng Project (the "Li Cheng Project") is approximately 655,567 sq. m. and to be developed under two phases. We were given to understand that construction work of Phase 1 is in progress whilst Phases 2 is in the planning stage. The property forms Phase 1 of the Li Cheng Project and its estimated capital value after completion is in the region of RMB5.5 billion. The total planned gross floor area of Phase 1 development is approximately 451,567 sq. m., which will comprise an arts exhibition center, a creative arts workshop, low-rise apartment buildings and auxiliary facilities. The total planned gross floor area of Phase 2 development is approximately 204,000 sq. m., which will comprise an electronic arts complex (including offices, exhibition centers and training centers), as well as auxiliary business and residential buildings and facilities. The development period for Phase I of the Li Cheng Project is expected to be from 2011 to 2018. The property is subject to a right to use the land for a term till 26 January 2050 for commercial purpose and till 26 January 2080 for residential purpose.	At the time of inspection, we were advised by the on-site appointed personnel of the Acquired Group that the property was in the process of construction works and we confirmed this statement was correctly stated as at the date of inspection. Due to the nature of sub-structural works in progress in the property, we were unable to conduct any form of due diligence work to the property on site.	396,000,000 (51 per cent. interest)

Notes:

1. The right to use the land has been granted to 昆山高科電子藝術創意產業發展有限公司 (translated as Kunshan Hi-Tech Electronic Arts Creative Industry Development Co., Ltd. and hereinafter referred to as "Kunshan Hi-Tech"), which is a 51%-owned subsidiary of 湖北天然居商業運營管理有限公司 Hubei Tianranju Business Management Limited via the following ways:

   (i) Pursuant to a 國有建設用地使用權出讓合同編號 3205832009CR0133 Contract for the Grant of State-owned Construction Land Use Rights No. 3205832009CR0133 dated 27 October 2009 made between the Land and Resources Bureau of Kunshan city and Kunshan Hi-Tech, the land use rights of a parcel of land having a site area of 288,518 sq. m. was granted to Kunshan Hi-Tech for a term of 40 years for commercial usage and a term of 70 years for residential usage at a consideration of RMB183,931,452.

   (ii) Lot No. 10401210003

   Pursuant to a 國有土地使用證 State-owned Land Use Rights Certificate known as 昆國用(2010)第2010104085號 Kun Guo Yong (2010) Di 2010104085 Hao dated 29 April 2010 and issued by the People's Government of Kunshan city, the subject property is a transferable land and has a term of use till 26 January 2080 for residential purpose. The legally interest party in the site is Kunshan Hi-Tech and the site area of the subject property is 173,314 sq. m. ("Land Parcel 1") as recorded under the State-owned Land Use Rights Certificate.

   (iii) Lot No. 10401210004

   Pursuant to a 國有土地使用證 State-owned Land Use Rights Certificate known as 昆國用 (2010)第2010104084號 Kun Guo Yong (2010) Di 2010104084 Hao dated 29 April 2010 and issued by the People's Government of Kunshan city, the subject property is a transferable commercial/residential land and has a term of use till 26 January 2050 for commercial purpose (mainly for electronic art creative studio, art museum, vacation hotel and residential ancillary facilities) and till 26 January 2080 for residential purpose. The legally interest party in the site is Kunshan Hi-Tech and the site area of the subject property is 115,204 sq. m. ("Land Parcel 2") as recorded under the State-owned Land Use Rights Certificate.

2. The property is subject to the following development covenants. They are:

   (i) Land Parcel 1

   Restrictions under the Terms of Planning and Design (Non-Industrial) dated 27 August 2008 under a document known as 昆規地段(2008) 0024號 Kun Gui Di Duan (2008) 0024 Hao. The captioned land should be used for residential purpose and subject to the following major covenants. They are:

Site area:	173,314 sq. m.
Plot ratio (F):	1.0≦F≦1.3
Site Coverage:	≦30%
Building height:	≦60 metres
Greenery area:	≧40%
Other development parameters:	To follow the relevant local, provincial and national planning requirements

   (ii) Land Parcel 2

   Restrictions under the Terms of Planning and Design (Non-Industrial) dated 27 August 2008 under a document known as 昆規地段(2008) 0025號 Kun Gui Di Duan (2008) 0025 Hao. The captioned land should be used for commercial and residential purposes and subject to the following major covenants. They are:

Site area:	115,204 sq. m.
Plot ratio (F):	1.3 ≦F≦1.5
Site Coverage:	≦40 %

Building height:	≦50 metres
Greenery area:	≧35%
Other development parameters:	To follow the relevant local, provincial and national planning requirements

3. Pursuant to two various 建設用地規劃許可證 Planning Permits on Land for Construction Use known as 地字第20100312 and 20100313號 Di Zi Di 20100312 and 20100313 Hao both dated 26 September 2010, Kunshan Hi-Tech is permitted to develop the property in accordance with its designated usages.

4. Pursuant to 3 various 建設工程規劃許可證 Planning Permits for Construction Engineering Works issued on 12 May 2011 and 2 August 2012, respectively, Kunshan Hi-Tech is permitted to construct buildings on Land Parcel 1 which will have a construction size of 52,801.41 sq. m. upon completion.

5. Pursuant to 23 various 建設工程規劃許可證 Planning Permits for Construction Engineering Works all issued on 4 May 2011, Kunshan Hi-Tech is permitted to construct buildings on Land Parcel 2 which will have a construction size of 56,940.5 sq. m. upon completion.

6. Pursuant to 2 various 建築工程施工許可證 known as 3205832011122701號 and 3205832012082901號 Permit to Commence Construction Nos. 3205832011122701 and 3205832012082901 issued on 27 December 2011 and 29 August 2012, respectively, Kunshan Hi-Tech is permitted to construct buildings and its related works which will have a construction size of 52,801.41 sq. m. upon completion.

7. Pursuant to a 建築工程施工許可證 known as 3205832011063003號 Permit to Commence Construction No. 3205832011063003 issued on 30 June 2011, Kunshan Hi-Tech is permitted to construct Nos. A01-A20 low rise residential buildings and its related works which will have a construction size of 56,940.50 sq. m. upon completion. The construction work is scheduled to be completed on or before 31 March 2013.

8. Pursuant to a 商品房屋預售證書 known as 2011預售准字第276號 Pre-sale Certificate of Commodity Units 2011 Yu Shou Zhun Zì Di 276 Hao issued on 24 October 2011, Kunshan Hi-Tech is allowed to dispose 20 nos. low rise residential blocks having a total gross floor area of 41,463.44 sq. m. in the market.

9. Pursuant to a copy of an 企業法人營業執照 Enterprise Legal Person Business License dated 10 February 2012, Kunshan Hi-Tech is a limited liability company with an operation period from 18 April 2008 to 17 April 2028.

10. According to the legal opinion as prepared by the Company's PRC legal adviser, the following opinions are noted:–

    (i) The property together with improvements erected thereon is subject to a mortgage in favour of 中糧信托有限責任公司 COFCO Trust Co., Ltd. and used as the subject of a 信托借款合同 Entrust Loan Contract entered between 北大資源集團有限公司 Peking University Resource Group Co., Ltd. and COFCO Trust Co., Ltd. and dated 9 May 2012. This mortgage is subject to a 土地他項權證 Certificate of Other Rights Charged on Land known as 昆他項(2012)第0480號 Kun Ta Xiang (2012) Di 0480 Hao and dated 10 May 2012, the loan amount is RMB250 million and the mortgage is to be expired on 23 November 2013.

    (ii) Save except for the restriction of the mortgage as disclosed in note (i.) above, Kunshan Hi-Tech is the legally interested party in the property, and Kunshan Hi-Tech has the right to possess and use the property in accordance with the rules and regulations in China, including to let, assign and mortgage of the land use rights of the property.

    (iii) Kunshan Hi-Tech has obtained relevant approvals to construct and to pre-sale, thus Kunshan Hi-Tech had the rights to construct and pre-sale in accordance with the approvals.

11. We were advised that, as at the Date of Valuation, the incurred cost of construction was approximately RMB111,216,000, and we were further advised that more construction contracts and construction costs would be entered and incurred in the coming future. According to the information provided, the expected total investment amount of Phase I development is approximately RMB4.67 billion.

Category B. Non-market Value Basis (Investment Value)

Group III – Property held by the Acquired Group in the PRC for future development purpose

	Property	Description and tenure	Particulars of occupancy	Reported investment value in its existing state to the Acquired Group as at 31 August 2012 *RMB*
4.	A parcel of land located at Lamei Village Yaoji Town Huangpo District Wuhan city Hubei province The PRC	The property comprises a parcel of land having a total site area of 730 Chinese Mu (approximately 486,669.1 sq. m.). Most parts of the property are filled with grasses and there are scattered small trees grew on the property. There were some small village houses and farm land noted in the locality. The property is collectively owned and designated for agriculture development and ecotourism purposes for a land use term till 11 February 2048.	At the time of inspection, we were advised by the on-site appointed personnel of the Acquired Group that the property was uncultivated in nature and there did not have any development plan applicable to the property at this stage.	9,000,000 (100 per cent. interest) *(This is not a commercial value and see Note 2)*

Notes:

1. Pursuant to a 集體土地使用證 Collectively-owned Land Use Rights Certificate known as 黃陂集用(2005) 第246號 Huang Po Ji Yong (2005) Di 246 Hao dated 12 December 2005 and issued by the People's Government of Huangpo District, the legally interest party in the property that having a total land area of 730 Chinese Mu (畝) (approximately 486,669.1 sq. m.) is 湖北天然居房地產發展有限公司 Hubei Tianranju Property Development Co., Ltd. (the former name of 湖北天然居商業運營管理有限公司 Hubei Tianranju Business Management Limited and hereinafter referred to as "Hubei Tianranju"), which is a wholly-owned subsidiary of Hong Kong Tianranju Holdings Limited, for agriculture development and ecotourism purposes till 11 February 2048.

2. We have attributed no commercial value i.e. market value to the property as the transferability of the property is restricted or additional procedures are required before the property becomes a stated-owned transferrable land. However, for the Company's internal reference purpose, we were advised to assess and report the investment value of the property in its existing state to the Acquired Group.

3. According to the legal opinion as prepared by the Company's PRC legal adviser, Hubei Tianranju is the legally interested party in the property by the way of 四荒拍賣 Si Huang Auction, and it has the right to possess and use the property in accordance with the rules and regulations in China. Should Hubei Tianranju want to transfer or mortgage of the land use rights of the property, Hubei Tianranju is required to obtain consent from the related Rural Collective Sector Organization (i.e. the land owner) and endorsement from the village/township people's government prior to submit to the county people's government for its approval, and no land premium is required.

4. As confirmed by the Company, Hubei Tianranju plans to hold the land on a long term basis and has no intention to transfer the ownership at this stage, the above mentioned approval requirements for transferring the land use right will not have any adverse impact on Hubei Tianranju. Given that there is no change in the usage of the land, the management of the Company does not anticipate material legal obstacles in obtaining the required approvals in case of transferring the ownership is acquired.

5. Pursuant to a copy of an 企業法人營業執照 Enterprise Legal Person Business License dated 1 March 2011, Hubei Tianranju is a Sino-foreign joint venture limited liability company with an operation period from 23 February 2011 to 23 February 2061.

6. We are advised by the Company that it is the intention of Hubei Tianranju to use the land for long term investment purpose in accordance with the approved usage of the land, and there is currently no definite timetable on the use of the land. Depending on the overall business development progress, Hubei Tianranju will formulate a definite timetable and business development plan on the land when and where appropriate.

Group IV – Property held by the Acquired Group in the PRC for investment purpose

	Property	Description and tenure	Particulars of occupancy	Reported investment value in its existing state to the Acquired Group as at 31 August 2012 *RMB*
5.	Various office units on various levels of Block Nos. A and B Asia Plaza (also known as International Building of Wuhan) Lot No. B06241625-1 Dandong Road Jianghan District Wuhan city Hubei province The PRC *(see Note 1)*	The property comprises various office units on various levels of an office complex which was completed in about 2009. The office complex comprises two 19-storeyed office buildings erected on a 3-storeyed commercial podium (excluding basements). According to the provided various title certificates, the property has a total gross floor area of 26,963.32 sq. m. The property is situated on an administratively allocated land and the land use of the subject land is designated for office and ancillary services purposes without a specified land use term.	We have inspected and confirmed by the management of the Acquired Group that the property was subject to various tenancies for various terms with the latest to be expired on 18 November 2017 at an aggregated monthly rental of approximately RMB561,000 exclusive of management fee and maintenance fee for office purpose. A total gross floor area of approximate 1,437 sq. m. was vacant as at the Date of Valuation.	160,000,000 (100 per cent. interest) *(This is not a commercial value and see Note 4)*

Notes:

1. The property comprises – Block A: The whole of Levels 1 to 9 and 13 to 22, and Block B: Basement B, Unit A, B, D, E, F, G, H and I on Level 9, Unit A, F, G and H on Level 10, Unit H on Level 19, Unit D, E, H and I on Level 21, and the whole of Levels 1 to 4, 6 to 8, 11, 13 to 15, 20 and 22.

2. Pursuant to 7 various 國有土地使用證 State-owned Land Use Rights Certificates all dated 28 September 2009, the legally interest party in the land use rights of the property of approximately 761.91 sq.m. is 湖北天然居商業運營管理有限公司 Hubei Tianranju Business Management Limited (hereinafter referred to as "Hubei Tianranju"), which is a wholly-owned subsidiary of Hong Kong Tianranju Holdings Limited.

3. Pursuant to 7 various 房權證 Building Ownership Certificates all dated 14 September 2009, the legally interested party in the property that having a total gross floor area of approximately 26,963.32 sq.m. is Hubei Tianranju.

4. We have attributed no commercial value i.e. market value to the property as the transferability of the property is restricted or additional procedures are required before the property becomes a stated-owned transferrable land. However, for the Company's internal reference purpose, we were advised to assess and report the investment value of the property (land and building) in its existing state to the Acquired Group.

5. Pursuant to a copy of an 企業法人營業執照 Enterprise Legal Person Business License dated 1 March 2011, Hubei Tianranju is a Sino-foreign joint venture limited liability company with an operation period from 23 February 2011 to 23 February 2061.

6. According to the legal opinion as prepared by the Company's PRC legal adviser, the following are noted:–

   (i) The property is situated on an administratively allocated land and the land may not fall within the approved 劃撥用地目錄 administratively allocated land use category published by 中華人民共和國國土資源部令第9號 The P.R. China Ministry of Land and Resources Order No. 9. As such, the relevant land administration department may demand compensation from the land user(s) in the future.

   (ii) Hubei Tianranju is the legally interested party in the property and it has the right to possess and use the property in accordance with the rules and regulations in China. As the property is situated on an administratively allocated land, (1) should Hubei Tianranju wants to transfer the property, Hubei Tianranju is required to obtain the approval from the relevant authorities of city/county people's government; upon received the approval of the transfer, the transferee is required to go through the land use right granting procedures and to pay relevant land premium to the government; if the authority decides that the land use right granting procedures are not required, the transferee shall pay the relevant land revenue out of the revenue of the property to the government or dispose the land revenue in other permitted ways; and (2) should Hubei Tianranju lease the property for profit-making purpose, Hubei Tianranju is required to pay the land revenue out of the rent to the government. As confirmed by Hubei Tianranju, Hubei Tianranju pays the land revenue out of the rent and the rental registration fee at a sum of RMB 50,000 per year prescribed by the Housing Bureau of Jianghan District of Wuhan.

   (iii) Hubei Tianranju, in accordance with the local rules and regulations applied, obtained 房屋租賃備案證 Recordal Certificate of Rental Housing known as (漢)房租證字第12082號 (Han) Fang Zu Zheng Zi Di 12082 Hao dated 14 March 2012, and the effective period of the permit is from 28 January 2012 to 27 January 2013.

7. As confirmed by the Company, Hubei Tianranju plans to hold the land on a long term basis and has no intention to transfer the ownership at this stage, the above mentioned approval requirements for transferring the land use right will not have any adverse impact on Hubei Tianranju.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company (a) as at the Latest Practicable Date; (b) immediately after the issue of the Consideration Shares (assuming that there will be no change in the issued share capital of the Company from the Latest Practicable Date up to the Completion Date); and (c) immediately after full exercise of the conversion rights attaching to the Convertible Bonds (assuming that there will be no change in the issued share capital of the Company other than the issue of the Consideration Shares from the Latest Practicable Date up to the exercise in full of the conversion rights attaching to the Convertible Bonds) are as follows:

(a) As at the Latest Practicable Date

Authorised:		*HK$*
3,000,000,000	Shares	300,000,000
Issued and fully paid:		
1,106,062,040	Shares	110,606,204

All of the Shares currently in issue rank pari passu in all respects with each other including, in particular, as to dividends, voting rights and capital.

(b) Immediately after the issue of the Consideration Shares

Authorised:		*HK$*
3,000,000,000	Shares	300,000,000
Issued and fully paid:		
1,633,969,016	Shares	163,396,901.60

(c) Immediately after full exercise of the conversion rights attaching to the Convertible Bonds

Authorised:		*HK$*
3,000,000,000	Shares	300,000,000
Issued and fully paid:		
2,499,085,294	Shares	249,908,529.40

There has been no alteration to the authorised share capital of the Company since the end of its last financial year, being 31 December 2011 and there has been no increase in the issued share capital of the Company since 31 December 2011 and up to the Latest Practicable Date.

3. MARKETS PRICES

The table below shows the closing prices of the Shares as quoted on the Stock Exchange on (i) the last trading day of each of the six months immediately preceding the date of Announcement; (ii) 23 August 2012, being the last trading day immediately preceding the date of the Announcement; and (iii) the Latest Practicable Date:

Date	**Closing price of Shares** *HK$*
2012	
29 February	0.305
30 March	0.250
30 April	0.250
31 May	0.290
29 June	0.370
31 July	0.440
23 August (being the last trading day immediately preceding the date of the Announcement)	0.430
31 August	Suspended
28 September	0.360
31 October	0.335
Latest Practicable Date	0.350

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing on 7 March 2012 (being six months immediately prior to the date of the Announcement) and ending on the Latest Practicable Date were HK$0.24 and HK$0.48 per Share, respectively.

4. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were 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 were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules, were as follows:

(a) Long positions in the Shares of the Company under the SFO

Name of Director	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr Zhang Zhao Dong	Directly beneficially owned	3,956,000	0.36%
Mr Zheng Fu Shuang	Directly beneficially owned	200,019,000	18.08%

(b) Directors' rights to acquire shares in the Company and any of its associated corporations

Directors' interests in share options of the Company

Name of Director	Number of share options held	Date of grant of share options	Exercise period of share options	Exercise price of share options *HK$*
Mr Zhang Zhao Dong	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Mr Chen Geng	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Mr Xia Yang Jun	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281
Mr Xie Ke Hai	10,514,050	5.12.2011	5.12.2012 to 4.12.2014	0.281

Save as disclosed in this paragraph, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were 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 were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Enlarged Group or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2011, being the date to which the latest published audited consolidated accounts of the Company were made up.

No Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group taken as a whole.

5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, the following persons had interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	*Notes*	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
北京北大資產經營有限公司 (Peking University Asset Management Company Limited)	*1*	Through a controlled corporation	363,265,000	32.84%
Peking Founder	*2*	Through a controlled corporation	363,265,000	32.84%
Founder Information		Directly beneficially owned	363,265,000	32.84%
Peking University Education Foundation		Directly beneficially owned	93,240,000	8.43%
Peking University Education Foundation		Beneficiary of a trust	2,330,000	0.21%
Ms Li Yong Hui	*3*	As trustee	60,671,600	5.49%
Ms Ying Yu Ling	*3*	As trustee	60,671,600	5.49%
F2 Consultant Limited	*3*	Owned as nominee	60,671,600	5.49%

Notes:

1. Peking University Asset Management Company Limited is deemed to be interested in the 363,265,000 shares of the Company under the SFO by virtue of its interest in Peking Founder.

2. Peking Founder is deemed to be interested in the 363,265,000 shares of the Company under the SFO by virtue of its interest in Founder Information.

3. F2 Consultant Limited holds the shares of the Company as nominee on behalf of the directors of Founder Data Corporation International Limited ("FDC") who are acting in their capacity as the trustees of a discretionary trust for the employees of FDC and its subsidiaries. Ms Li Yong Hui and Ms Ying Yu Ling are the directors of FDC.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, other than a Director or chief executive of the Company, no persons had interests or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

Save as disclosed above, the Directors are not aware of any person (not being Directors or the chief executive of the Company) who, as at the Latest Practicable Date, have an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was recorded in the register required to be kept under Section 336 of Part XV of the SFO or who (other than a member of the Group was) was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

6. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SHARES

(a) As at 6 September 2012 (being the date of the Announcement) and the Latest Practicable Date, the Vendor and the parties acting in concert with it held 363,265,000 Shares, representing approximately 32.84% of the existing total issued share capital of the Company. None of the Vendor and parties in concert with it (including any of Vendor's directors) hold any other Shares, convertible securities, warrants, options or derivatives of the Company. None of the Vendor, its associates and parties acting in concert with any of them had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the six months period immediately prior to 6 September 2012 (being the date of the Announcement) and ending on the Latest Practicable Date.

(b) None of the Directors was interested in any shares, convertible securities, warrants, options or derivative in the Vendor or similar rights which are convertible or exchangeable into shares in the Vendor. None of the Directors has dealt in any shares, convertible securities, warrants, options or derivatives of the Vendor during the period beginning 6 months prior to the date of the Announcement and ending with the Latest Practicable Date. Save as disclosed in the section headed "3. Whitewash Waiver" in the Letter from the Board of this circular, none of the directors of the Vendor was interested in any Shares, convertible securities, warrants, options or derivatives in the Company or similar rights which are convertible or exchangeable into any Shares. None of the directors of the Vendor has dealt for value in any shares, convertible securities, warrants, options or derivatives of the Company during the period six months immediately prior to 6 September 2012 (being the date of the Announcement) and ending with the Latest Practicable Date.

(c) As at the Latest Practicable Date, the Company was not interested in any shareholding in the Vendor. The Company has not dealt for value in the shares, convertible securities, warrants, options or derivatives in the Vendor during the period six months immediately prior to 6 September 2012 (being the date of the Announcement) and ending on the Latest Practicable Date.

(d) Save as disclosed in the section headed "Disclosure of interests" in this appendix, none of the Directors was interested in any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date. None of the Directors had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company or the Vendor during the period six months immediately prior to 6 September 2012 (being the date of the Announcement) and ending on the Latest Practicable Date.

(e) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code exists between the Vendor, its associates and parties acting in concert with any of them, and any other persons.

(f) During the period commencing on 7 March 2012 (being six months immediately prior to the date of the Announcement) and ending on the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code exists between the Vendor, its associates and parties acting in concert with any of them, and any other persons.

(g) There is no intention for any of the Consideration Shares allotted and issued to the Vendor to be transferred, charged or pledged to any other persons.

(h) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between (i) the Vendor and its associates and parties acting in concert with any of them; and (ii) any Directors or Shareholders having any connection with or dependence upon the Acquisition and/or the Whitewash Waiver.

(i) Each of the Directors (i.e. Mr Zheng Fu Shuang) who has interest in the Shares (save for Mr Zhang Zhao Dong is the director of Peking Founder and Mr Xia Yang Jun (being a holder of share options only) who has been involved in negotiation of the terms of the Acquisition who will abstain from voting on the relevant resolution in respect of the Whitewash Waiver at the SGM) has indicated that he intends, in respect of his beneficial shareholdings, to vote in favour of the relevant resolution in connection with the Whitewash Waiver to be proposed at the SGM. Save for Mr Zheng Fu Shuang and Mr Zhang Zhao Dong, no other Director holds any voting rights of the Company as at the Latest Practicable Date.

(j) As at the Latest Practicable Date, none of (i) the subsidiaries of the Company, (ii) the pension fund of the Company or of any of its subsidiaries, nor (iii) any adviser to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code), had any interest in the Shares, options, warrants, derivatives or securities convertible into Shares.

(k) No Shares, options, warrants, derivatives or securities convertible into Shares in the Company were managed on a discretionary basis by fund manager connected with the Company as at the Latest Practicable Date, nor did any such fund manager deal in any Shares, options, warrants, derivatives or securities convertible into Shares during the period of six months immediately prior to 6 September 2012 (being the date of the Announcement) and ending on and including the Latest Practicable Date.

(l) There is no benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Acquisition and/or the Whitewash Waiver.

(m) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between any of the Directors and any other persons which is conditional or dependent upon the outcome of the Acquisition and/or the Whitewash Waiver or otherwise connected with the Acquisition and/or the Whitewash Waiver.

(n) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) exists between the Vendor or any person acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the outcome of the Acquisition and/or the Whitewash Waiver.

(o) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code.

(p) As at the Latest Practicable Date, none of the Directors had any material personal interest in any material contract entered into by the Vendor or parties acting in concert with it.

(q) As at the Latest Practicable Date, none of the Company, any Directors, the Vendor nor any parties acting in concert with the Vendor had borrowed or lent any Shares, convertible securities, warrants, options or derivatives in the Company or similar rights which are convertible or exchangeable into Shares.

7. DIRECTORS' INTEREST IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective associates had any personal interests in companies engaged in businesses, which compete or may compete with the Group.

8. DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors is interested in any contract or arrangement entered into by the Company or any of its subsidiaries or any member of the Acquired Group which contract or arrangement is subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

9. SERVICE CONTRACTS

Mr Chen Geng, an executive Director, had entered into a service agreement with the Company on 22 May 2011 for a fixed term of 2 years commencing on 22 May 2011 subject to termination by either party by giving not less than one month's notice. Pursuant to the said service agreement, Mr Chen Geng is entitled to a salary of RMB430,200 per annum and to participate in the bonus scheme and the share option scheme, provided that (i) his entitlement thereunder shall be determined at the absolute discretion of the Board; and (ii) the total amount of bonus payable to all executive Directors shall not exceed 15% of the audited consolidated net profit of the Group (after payment of all bonuses) after taxation and minority interests but before extraordinary items of the Group for that financial year.

Mr Xie Ke Hai, an executive Director, had entered into a service agreement with the Company on 30 June 2011 for a fixed term of 2 years commencing on 30 June 2011 subject to termination by either party by giving not less than one month's notice. Pursuant to the said service agreement, Mr Xie Ke Hai shall not be entitled to receive any salary, which is subject to the review at the discretion of the Board or a committee established for such purpose but he shall be entitled to participate in the bonus scheme and the share option scheme, provided that (i) his entitlement thereunder shall be determined at the absolute discretion of the Board; and (ii) the total amount of bonus payable to all executive Directors shall not exceed 15% of the audited consolidated net profit of the Group (after payment of all bonuses) after taxation and minority interests but before extraordinary items of the Group for that financial year.

Mr Xia Yang Jun, an executive Director, had entered into a service agreement with the Company on 30 June 2011 for a fixed term of 2 years commencing on 30 June 2011 subject to termination by either party by giving not less than one month's notice. Pursuant to the said service agreement, Mr Xia Yang Jun shall not be entitled to receive any salary, which is subject to the review at the discretion of the Board or a committee established for such purpose but he shall be entitled to participate in the bonus scheme and the share option scheme, provided that (i) his entitlement thereunder shall be determined at the absolute discretion of the Board; and (ii) the total amount of bonus payable to all executive Directors shall not exceed 15% of the audited consolidated net profit of the Group (after payment of all bonuses) after taxation and minority interests but before extraordinary items of the Group for that financial year.

Mr Zhang Zhao Dong, an executive Director, had entered into a service agreement with the Company on 30 June 2011 for a fixed term of 2 years commencing on 30 June 2011 subject to termination by either party by giving not less than one month's notice. Pursuant to the said service agreement, Mr Zhang Zhao Dong shall not be entitled to receive any salary, which is subject to the review at the discretion of the Board or a committee established for such purpose but he shall be entitled to participate in the bonus scheme and the share option scheme, provided that (i) his entitlement thereunder shall be determined at the absolute discretion of the Board; and (ii) the total amount of bonus payable to all executive Directors shall not exceed 15% of the audited consolidated net profit of the Group (after payment of all bonuses) after taxation and minority interests but before extraordinary items of the Group for that financial year.

All the service agreements above had not been amended and/or replaced within 6 months prior to the date of the Announcement and up to the Latest Practicable Date.

Each of the independent non-executive Directors, namely Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian, had entered into an appointment letter with the Company on 30 June 2012 for a period of one year from 30 June 2012 at a fixed director's fee (without any variable remuneration) of HK$126,000, HK$126,000 and HK$120,000 per annum, respectively. There have been no amendments to these three appointment letters since 30 June 2012 up to the Latest Practicable Date.

As at the Latest Practicable Date, save as disclosed above, none of the above Directors had any other service agreement with any members of the Group or its associated companies. Further, as at the Latest Practicable Date, save as those disclosed above none of the other Directors had any existing or proposed service agreement with any members of the Group or its associated companies:

(i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months prior to the date of the Announcement;

(ii) which are continuous contracts with a notice period of 12 months or more;

(iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period; or

(iv) which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

10. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Enlarged Group was engaged in any litigations or claims and no litigations or claims of material importance is pending or threatened against the Company or any member of the Enlarged Group.

11. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualifications of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
Anglo Chinese	a corporation licensed to carry out types 1, 4, 6 and 9 regulated activities under the SFO
Ernst & Young	Certified Public Accountants
LCH	Professional Surveyor
Haiwen & Partners	Registered law firm in the PRC

As at the Latest Practicable Date, each of the expert above did not have any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Enlarged Group.

As at the Latest Practicable Date, none of the experts above have any interest, direct or indirect, in any asset which since 31 December 2011, the date to which the latest published audited financial statements of the Company were made up, have been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of the experts above has given and has not withdrawn its written consents to the issue of this circular with the inclusion of its report or letter or opinion as set out in this circular and references to its names in the form and context in which they appear in this circular.

DBS Asia Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of references to its name in the form and context in which it is included.

12. MATERIAL CONTRACT

The following material contract (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within two years immediately preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

(a) the S&P and Subscription Agreement.

13. GENERAL

(a) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda;

(b) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) The secretary of the Company is Ms Tang Yuk Bo, Yvonne, ACS, ACIS.

(d) The auditor of the Company is Ernst & Young, at 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

(f) As at the Latest Practicable Date, the Board consisted of Mr Zhang Zhao Dong, Mr Chen Geng, Mr Xia Yang Jun, Mr Xie Ke Hai and Mr Zheng Fu Shuang as executive Directors and Mr Li Fat Chung, Ms Wong Lam Kit Yee and Ms Cao Qian as independent non-executive Directors.

(g) The address of the Vendor is 28/F, The Sun's Group Centre, 200 Gloucester Road, Wanchai, Hong Kong. The directors of the Vendor are Mr Xu Wen Bin, Mr Guo Xu Guang and Mr Lv He Dong. As at the Latest Practicable Date, the Vendor was owned as to 96.92% by Peking Founder and Peking Founder was owned as to 70% by Peking University Asset Management Company Limited, which was wholly owned by Peking University. The directors of Peking Founder are Professor Wei Xin, Mr Zhang Zhao Dong, Ms Liao Tao Qin, Professor Xiao Jian Guo, Mr Cheung Shuen Lung, Mr Li You and Ms Yu Li. The directors of Peking University Asset Management Company Limited are Mr Huang Gui Tian, Ms Yan Min, Mr Wei Jun Min, Mr Zhou Fu Min and Ms Liao Tao Qin.

(h) The Company has appointed DBS Asia Capital Limited as its financial adviser. The registered office of DBS Asia Capital Limited is 17th Floor, The Center, 99 Queen's Road Central, Hong Kong.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available at the quick link to the Company's website at www.irasia.com/listco/hk/ecfounder and the website of Securities and Futures Commission at www.sfc.hk and for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. at the principal place of business of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong from the date of this circular up to and including the date of SGM:

(a) the memorandum and articles of association of the Company;

(b) the material contract referred to in the paragraph headed "Material contract" in this appendix;

(c) the letter from the board, the text of which is set out on pages 8 to 65 of this circular;

(d) the letter from the Independent Board Committee, the text of which is set out on pages 66 to 67 of this circular;

(e) the letter from Anglo Chinese, the text of which is set out on pages 68 to 119 of this circular;

(f) the written consents of Anglo Chinese, Ernst & Young, LCH, Haiwen & Partners and DBS Asia Capital Limited referred to in the paragraph headed "Expert's qualification and consent" in this appendix;

(g) the annual reports of the Company for each of the two years ended 31 December 2010 and 2011;

(h) the accountants' reports from Ernst & Young dated 16 November 2012 on the financial information of the Acquired Group, the text of which is set out in Appendix II(A) to Appendix II(D) to this circular;

(i) the letter from Ernst & Young dated 16 November 2012 in respect of the unaudited pro forma financial information on the Enlarged Group, the text of which is set out in Appendix III to this circular;

(j) the valuation report from LCH dated 16 November 2012 for the properties of the Acquired Group, the text of which is set out in appendix V of this circular;

(k) the service contracts referred to in the paragraph headed "Service Contracts" in this appendix;

(l) the Master Lease Agreement;

(m) the Loan Agreement;

(n) the Entrusted Loan Agreement; and

(o) this circular.

EC-FOUNDER (HOLDINGS) COMPANY LIMITED
方正數碼(控股)有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 00618)

NOTICE IS HEREBY GIVEN THAT the Special General Meeting of EC-Founder (Holdings) Company Limited (the "Company") will be held at 10:00 a.m. on Wednesday, 5 December 2012 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong for the following purposes:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the S&P and Subscription Agreement (as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved;

(b) subject to the completion of the Acquisition (as defined in the Circular), the issue of the Consideration Convertible Bonds (as defined in the Circular) and the Subscription Convertible Bonds (as defined in the Circular) to the Vendor (as defined in the Circular) on and subject to the terms and conditions of the S&P and Subscription Agreement (as defined in the Circular) be and are hereby approved;

(c) subject to the completion of the Acquisition (as defined in the Circular) and the Listing Committee of The Stock Exchange of Hong Kong Limited having granted the listing of, and permission to deal in, the Consideration Shares (as defined in the Circular), the allotment and issue of the Consideration Shares to the Vendor (as defined in the Circular) be and are hereby approved;

(d) subject to the completion of the Acquisition (as defined in the Circular) and the Listing Committee of The Stock Exchange of Hong Kong Limited having granted the listing of, and permission to deal in, the Conversion Shares (as defined in the Circular), the allotment and issue of the Conversion Shares to the holders of the Convertible Bonds (as defined in the Circular) upon exercise of the conversion rights attaching to the Convertible Bonds (as defined in the Circular) at HK$0.43 per Conversion Share be and are hereby approved; and

(e) any one Director be and is hereby authorised to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to the S&P and Subscription Agreement (as defined in the Circular) and the transactions contemplated thereunder."

* *For identification purpose only*

2. "**THAT**:

   (a) the whitewash waiver to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission (or any of his delegates) pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (the "**Whitewash Waiver**") to waive the obligation of the Vendor (as defined in the Circular) and parties acting in concert with it to make a mandatory general offer for all the shares of the Company not already owned or agreed to be acquired by them pursuant to Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of the allotment and issue of the Consideration Shares (as defined in the Circular) to the Vendor be and is hereby approved; and

   (b) that the directors of the Company be and are hereby authorised to execute all such documents and do all such acts and things as they consider desirable, necessary or expedient in connection therewith and to give effect to any matters relating to or in connection with the Whitewash Waiver."

3. "**THAT**:

   (a) the Loan Agreement (as defined in the Circular), the Entrusted Loan Agreement (as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved;

   (b) any one Director be and is hereby authorised to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to the Loan Agreement (as defined in the Circular), the Entrusted Loan Agreement (as defined in the Circular) and the transactions contemplated thereunder."

4. "**THAT**:

   (a) the Master Lease Agreement (as defined in the Circular) and the transactions contemplated thereunder be and are hereby approved;

   (b) the proposed annual caps in relation to the transactions contemplated under the Master Lease Agreement for the three years ending 31 December 2014 be and are hereby approved; and

   (c) any one Director be and is hereby authorised to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to the Master Lease Agreement (as defined in the Circular) and the transactions contemplated thereunder."

By Order of the Board
EC-Founder (Holdings) Company Limited
Zhang Zhao Dong
Chairman

Hong Kong, 16 November 2012

Notes:

1. Any shareholder entitled to attend and vote at the meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company but must be present in person at the meeting to represent the shareholder. Completion and return of the form of proxy will not preclude a shareholder from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.

2. Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. In order to be valid, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the principal place of business of the Company at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.

4. At the meeting (or at any adjournment thereof), the Chairman of the meeting put each of the above resolutions to the vote by way of a poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Bye-laws of the Company. The poll results will be published on the websites of the Company at www.irasia.com/listco/hk/ecfounder and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk following the meeting.