Audited Financial Statements

Euro Asia Premier Real Estate Company Limited

Year ended 31 December 2012

Independent Auditor's Report

To the shareholders of

Euro Asia Premier Real Estate Company Limited

(incorporated in the British Virgin Islands with limited liability)

We have audited the consolidated financial statements of Euro Asia Premier Real Estate Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 3 to 27, which comprise the consolidated and the Company's statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent Auditor's Report

To the shareholders of
Euro Asia Premier Real Estate Company Limited
(incorporated in the British Virgin Islands with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
We draw attention to note 22 to the consolidated financial statements which describes the significant events of the Group after the reporting period. Our opinion is not modified in respect of this matter.

Certified Public Accountants
Hong Kong, 13 February 2014

Weatherseed, Stephen Peter Stuart
Practising Certificate number: P05588

Euro Asia Premier Real Estate Company Limited

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Note	**2012**	2011
		RMB	*RMB*
Turnover	*4*	**4,620,000**	291,980,000
Cost of development on properties sold		**(3,720,000)**	(10,000,000)
Cost of investment properties sold	*9*	**-**	(91,118,063)
Cost of prepaid land lease payments sold	*10*	**-**	(85,775,800)
Gross profit		**900,000**	105,086,137
Other income	*5*	**20,573**	435,703
		920,573	105,521,840
Selling expenses	*6*	**(501,000)**	(42,052,037)
Operating expenses	*7*	**(15,340,537)**	(22,451,956)
(Loss) Profit before tax		**(14,920,964)**	41,017,847
Income tax	*8(a)*	**-**	(6,452,800)
Net (loss) profit and total comprehensive (loss) income for the year		**(14,920,964)**	34,565,047

Euro Asia Premier Real Estate Company Limited

Consolidated Statement of Financial Position

At 31 December 2012

	Note	**31 December 2012 *RMB***	31 December 2011 *RMB*
Non-current assets			
Investment properties	*9*	**-**	-
Prepaid land lease payments	*10*	**109,227,430**	112,557,452
		109,227,430	112,557,452
Current assets			
Accounts receivable	*12*	**248,939,784**	222,433,620
Cash and cash equivalents	*13*	**1,618,430**	35,680,885
		250,558,214	258,114,505
Current liabilities			
Accounts payable	*14*	**(70,734,954)**	(66,700,303)
Income tax payable	*8(b)*	**(10,630,779)**	(10,630,779)
		(81,365,733)	(77,331,082)
Net current assets		**169,192,481**	180,783,423
NET ASSETS		**278,419,911**	293,340,875
CAPITAL AND RESERVES			
Issued capital	*15*	**245,688,340**	245,688,340
Reserves	*16*	**32,731,571**	47,652,535
TOTAL EQUITY		**278,419,911**	293,340,875

Approved and authorised for issue by the Board of Directors on 13 February 2014

Director *Director*

Euro Asia Premier Real Estate Company Limited

Statement of Financial Position
At 31 December 2012

	Note	**31 December 2012** ***RMB***	31 December 2011 *RMB*
Non-current assets			
Investments in subsidiaries	*11*	**8,545,475**	8,545,475
Current assets			
Accounts receivable	*12*	**265,944,251**	265,944,251
Cash and cash equivalents	*13*	**23,266**	4,089,636
		265,967,517	270,033,887
Current liabilities			
Accounts payable	*14*	**(43,720,014)**	(42,754,315)
Net current assets		**222,247,503**	227,279,572
NET ASSETS		**230,792,978**	235,825,047
CAPITAL AND RESERVES			
Issued capital	*15*	**245,688,340**	245,688,340
Reserves	*16*	**(14,895,362)**	(9,863,293)
TOTAL EQUITY		**230,792,978**	235,825,047

Approved and authorised for issue by the Board of Directors on 13 February 2014

Director *Director*

Euro Asia Premier Real Estate Company Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Issued capital *RMB*	Accumulated profits (losses) *RMB*	Capital reserves *RMB*	Total *RMB*
At 1 January 2011	245,688,340	(12,535,501)	25,622,989	258,775,828
Profit and total comprehensive income for the year	-	34,565,047	-	34,565,047
At 31 December 2011 and at 1 January 2012	245,688,340	22,029,546	25,622,989	293,340,875
Loss and total comprehensive loss for the year	-	(14,920,964)	-	(14,920,964)
At 31 December 2012	**245,688,340**	**7,108,582**	**25,622,989**	**278,419,911**

Consolidated Statement of Cash Flows
Year ended 31 December 2012

	Note	**2012** *RMB*	2011 *RMB*
OPERATING ACTIVITIES			
(Loss) Profit before tax		**(14,920,964)**	41,017,847
Depreciation of investment properties	*9*	**-**	3,260,062
Amortisation of prepaid land lease payments	*10*	**3,330,022**	4,310,412
Sales of properties and prepaid land lease payments		**(4,620,000)**	(280,230,000)
Cost of properties and prepaid land lease payments sold		**-**	176,893,863
Cost of development on properties sold		**3,720,000**	10,000,000
Working capital changes:			
(Increase) Decrease in accounts receivable		**(25,606,164)**	27,704,813
Increase in accounts payable		**4,034,651**	52,505,893
Cash (used in) generated from operations		**(34,062,455)**	35,462,890
Income tax paid		**-**	-
Net cash (used in) from operating activities and net (decrease) increase in cash and cash equivalents		**(34,062,455)**	35,462,890
Cash and cash equivalents at beginning of the year		**35,680,885**	217,995
Cash and cash equivalents at end of the year, represented by bank balances and cash	*13*	**1,618,430**	35,680,885

1. GENERAL

Euro Asia Premier Real Estate Company Limited (the "Company") is a limited liability company incorporated in the British Virgin Islands. The address of its registered office is Nerine Chambers, P.O. Box 905, Road Town, Tortola, British Virgin Islands. The principal place of business has been changed from Room 1002, 10/F., Block A, Sino Office Building, Dong Feng East Street, Weifang, Shandong Province, the PRC to 27th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

The Company was admitted to the Entry Standard listing on the Open Market of the Frankfurt Stock Exchange in 2010.

The Company and its subsidiaries (together the "Group") are principally engaged in property investment in the PRC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2011 financial statements. The adoption of the new / revised IFRSs that are effective from the current year and are relevant to the Group had no significant effects on the results and financial position of the Group and the Company for the current and prior years.

A summary of the principal accounting policies adopted by the Group is set out below.

Basis of measurement
The measurement basis used in the preparation of these financial statements is historical cost.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using consistent accounting policies.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Changes in ownership interest
Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)
Changes in ownership interest (continued)
When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest determined at the date when control is lost and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests at the date when control is lost. The amounts previously recognised in other comprehensive income in relation to the disposed subsidiary are accounted for on the same basis as would be required if the parent had directly disposed of the related assets or liabilities. Any investment retained in the former subsidiary and any amounts owed by or to the former subsidiary are accounted for as a financial asset or liability, associate, jointly controlled entity or others as appropriate from the date when control is lost.

Goodwill
Goodwill arising on an acquisition of a subsidiary is measured at the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previously held equity interest in the acquiree over the acquisition date amounts of the identifiable assets acquired and the liabilities assumed of the acquired subsidiary.

Goodwill on acquisition of subsidiary is recognised as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

In respect of a subsidiary, any excess of the acquisition date amounts of identifiable assets acquired and the liabilities assumed of the acquired subsidiary over the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, if any, after reassessment, is recognised immediately in profit or loss as a bargain purchase.

Financial instruments
Recognition and derecognition
Financial assets and financial liabilities are recognised when and only when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Group's contractual rights to future cash flows from the financial asset expire or (ii) the Group transfers the financial asset and has transferred substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Initial measurement
Financial assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are direct attributable to the acquisition or issue of the financial assets or financial liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)
Loans and receivables
Loans and receivables including accounts receivable and cash and cash equivalents are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

Financial liabilities
The Group's financial liabilities include accounts payable but exclude other tax payable. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets
At the end of each reporting period, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Revenue recognition
Rental income is recognised on a time proportion basis over the period of the operating lease.

Income from sale of properties and prepaid land lease payments is recognised on execution of a binding sale agreement.

Taxation
The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 in the financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising on investment in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Investment properties
Investment properties are land and buildings that are held by an owner or lessee under a finance lease, to earn rental income and / or for capital appreciation. These include properties held for a currently undetermined future use, properties that are being constructed or developed for future use as investment properties and properties that are held under operating lease, which satisfy the definition of investment property and carry at fair value. Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost less accumulated impairment losses of investment properties over their estimated useful lives from the date on which they are available for use and after taking into account their residual values, using the straight line method at 5% per annum (or over the lease term, if shorter).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the item is derecognised.

Prepaid land lease payments
Prepaid land lease payments are up-front payments to acquire fixed term interests in lessee-occupied land that are classified as operating leases. The premiums are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided to write off the cost less accumulated impairment losses of prepaid land lease payments over the lease term, using the straight line method at 1.5% ~ 3.6% per annum.

Subsidiaries
A subsidiary is an entity which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less accumulated impairment losses. The carrying amount of the investments is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash on hand and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Related parties
A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if 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 the parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:
   - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   - (iii) Both entities 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. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
   - (vi) The entity is controlled or jointly controlled by a person identified in (a).
   - (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 the parent of the entity).

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

(a) that person's children and spouse or domestic partner;
(b) children of that person's spouse or domestic partner; and
(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals receivable / payable under operating leases are credited / charged to profit or loss on a straight-line basis over the term of the relevant lease.

Lease incentives are recognised in profit or loss as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

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

Defined contribution plans
The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Foreign currency translation
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in the currency of Chinese Yuan Renminbi ("RMB"), which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Impairment of other assets
At the end of each reporting period, internal and external sources of information are reviewed to assess whether there is any indication that investment properties, prepaid land lease payments, investments in subsidiaries may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of other assets (Continued)
A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income in profit or loss immediately.

The accounting policy for recognition and reversal of the impairment loss for goodwill is stated in the accounting policy for goodwill in the earlier part of this note.

Share-based payments
Equity-settled share-based payment transactions with parties other than employers are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted. The fair value is measured at the date the entity obtains the goods or the counterparty renders the services.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Future changes in IFRSs
At the date of authorisation of these financial statements, a number of new / revised IFRSs have been issued that are not yet effective for the current year, which the Group has not early adopted. The directors are in the process of assessing the possible impact on the future adoption of these new / revised IFRSs, but are not yet in a position to reasonably estimate their impact on the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

<u>(i) Key sources of estimation uncertainty</u>

(a) Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Fair value of investment properties and prepaid land lease payments

Management determines the fair value of investment properties and prepaid land lease payments by using prevailing market data such as most recent sale transactions and market survey reports issued by independent property valuation providers.

(c) Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the accounts receivable. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each debtor. If the financial conditions of these debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

(d) Impairment of investments and receivables

The Group assesses annually if investments in subsidiaries have suffered any impairment in accordance with IAS 36 and follows the guidance of IAS 39 in determining whether amounts due from the subsidiaries are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the subsidiary and the selection of appropriate discount rates. Future changes in financial performance and position of the subsidiary would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(ii) Critical judgments made in applying accounting policies

(a) Accounting for Xinpu as a subsidiary

Pursuant to an agreement with 山東新建業集團有限公司 (Shandong New Industry Group Co., Ltd.*) ("SNI"), the Company has acquired the beneficial interest in 75% of the equity in 濰坊新普實業有限公司 (Weifang Xinpu Industrial Co., Ltd.*) ("Xinpu") held by SNI. Based on the legal opinion issued in 2014 by an independent law firm, such arrangement is legally valid and can provide the Company with the benefits of a shareholder. The Group has determined that it has obtained control over Xinpu as a result of the arrangement. Accordingly, Xinpu has been accounted for as a subsidiary of the Company.

* For identification purpose only.

4. TURNOVER

	Group	
	2012	2011
	RMB	*RMB*
Rental income	**-**	11,750,000
Sales of properties and prepaid land lease payments	**4,620,000**	280,230,000
	4,620,000	291,980,000

5. OTHER INCOME

	Group	
	2012	2011
	RMB	*RMB*
Accrued charges written back	**-**	435,703
Miscellaneous income	**20,573**	-
	20,573	435,703

6. SELLING EXPENSES

	Group	
	2012	2011
	RMB	*RMB*
PRC Business Tax	**231,000**	14,599,000
PRC Land Appreciation Tax	**270,000**	27,453,037
	501,000	42,052,037

7. OPERATING EXPENSES

	Group	
	2012	2011
	RMB	*RMB*
Audit and accounting fees	**699,950**	354,357
Amortisation of prepaid land lease payments	**3,330,022**	4,310,412
Depreciation of investment properties	**-**	3,260,062
Directors' remuneration	**3,504,384**	2,929,886
Legal and professional fees	**743,877**	1,810,960
Exchange (gain) loss, net	**(37,294)**	175,186
Management fees	**3,000,000**	3,000,000
PRC Deed Tax	**-**	1,350,000
PRC Property Tax	**1,008,422**	1,410,000
PRC Urban Land Use Tax	**1,559,530**	3,304,027
Staff salaries	**485,902**	198,984

8. INCOME TAX

The income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislations, interpretation and practices in respect thereof.

(a) Income tax expenses

	Group	
	2012	2011
	RMB	*RMB*
Current tax		
Mainland China Enterprise Income Tax	**-**	6,452,800

Reconciliation of tax expenses

	Group	
	2012	2011
	RMB	*RMB*
(Loss) Profit before tax	**(14,920,964)**	41,017,847
Income tax at applicable tax rate of 25% *(2011: 25%)*	**(3,730,241)**	10,254,462
Differences in tax rates	**427,726**	457,449
Non-deductible expenses	**836,448**	959,880
Utilisation of previously unrecognised tax losses	**-**	(5,147,100)
Tax exempt revenue	**(6,156)**	(71,891)
Unrecognised tax losses	**2,476,395**	-
Others	**(4,172)**	-
Tax expenses for the year	**-**	6,452,800

The applicable tax rate is Mainland China Enterprise Income Tax rate of 25% *(2011: 25%)*.

8. INCOME TAX (CONTINUED)

(b) Income tax payables

	Group	
	2012	2011
	RMB	*RMB*
Mainland China Enterprise Income Tax:		
For the three months ended 31 December 2009	**985,479**	985,479
For the year ended 31 December 2010	**3,192,500**	3,192,500
For the year ended 31 December 2011	**6,452,800**	6,452,800
For the year ended 31 December 2012	**-**	-
	10,630,779	10,630,779

(c) Unrecognised deferred tax assets

As at 31 December 2012, the tax losses of RMB9,905,580 (*2011: Nil*) arising from the operations in the PRC, which can be used to offset against future taxable profits of the respective subsidiary for a maximum of 5 years, will expire in 2017. Deferred tax assets have not been recognised in respect of the tax losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

9. INVESTMENT PROPERTIES

	Group	
	2012	2011
	RMB	*RMB*
Carrying amount		
At beginning of the reporting period	**-**	94,378,125
Additions	**-**	-
Disposals	**-**	(91,118,063)
Depreciation	**-**	(3,260,062)
At end of the reporting period	**-**	-

	Group	
	2012	2011
	RMB	*RMB*
Cost	**-**	-
Accumulated depreciation	**-**	-
	-	-

The Group's investment properties were situated in the PRC.

10. PREPAID LAND LEASE PAYMENTS

Prepaid land lease payments represent the costs paid for leasehold land in the PRC that are classified as operating leases. The costs are amortised over the leasehold periods.

	Group	
	2012	2011
	RMB	*RMB*
Carrying amount		
At beginning of the reporting period	**112,557,452**	157,643,664
Additions	**-**	45,000,000
Disposals	**-**	(85,775,800)
Amortisation	**(3,330,022)**	(4,310,412)
At end of the reporting period	**109,227,430**	112,557,452

	Group	
	2012	2011
	RMB	*RMB*
Cost	**120,050,000**	120,050,000
Accumulated amortisation	**(10,822,570)**	(7,492,548)
	109,227,430	112,557,452

Certain of the Group's prepaid land lease payments with an aggregate carrying value at the end of the reporting period of RMB72,398,162 *(2011: RMB74,752,574)* were pledged to secure facilities granted to related parties of the Group. As at 31 December 2012, the prepaid land lease payments with an aggregate carrying value of RMB109,227,430 (*2011: Nil*) were sealed under court orders until 2015 for cases in relation to related parties of the Group. The title transfers of those prepaid land lease payments under pledges or seals will be subject to restrictions.

The fair value of the prepaid land lease payments at the end of the reporting period is determined with reference to the valuation performed by the independent professional qualified valuers, 戴德梁行房地產顧問(天津)有限公司 (DTZ Debenham Tie Leung International Property Advisers (Tianjin) Co., Ltd.) ("DTZ"), based on the Direct Comparison Approach.

According to the valuation report issued by DTZ in 2014, the prepaid land lease payments had an aggregate fair value of RMB379,000,000 *(2011: RMB474,000,000)* as at 31 December 2012. Moreover, there are four unrecognised parcels of bare land with a total site area of approximately 200,000 square meters in the PRC for which State-owned Land Use Right Certificates have not yet been issued and which are currently considered to have no commercial value. After the valid certificates are issued on the land, according to the valuers, it will have a total fair value of RMB253,000,000 *(2011: RMB250,000,000)* as at 31 December 2012.

10. PREPAID LAND LEASE PAYMENTS (CONTINUED)

The value of the Group's investment properties and prepaid land lease payments classified on the basis of status of titles and licences is set out below:

	31 December 2012	
	Net book value *RMB*	**Fair value** *RMB*
Property rights registered in name of the Group	36,829,268	120,000,000
Property rights not registered in name of the Group *(Note)*	72,398,162	259,000,000
	109,227,430	**379,000,000**

	31 December 2011	
	Net book value *RMB*	Fair value *RMB*
Property rights registered in name of the Group	37,804,878	140,000,000
Property rights not registered in name of the Group *(Note)*	74,752,574	334,000,000
	112,557,452	474,000,000

Note: The Group has acquired the properties in the PRC by asset transfer agreements and the transfers of property rights have not yet been registered with the government authorities.

11. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB	*RMB*
Unlisted share capital, at cost	**8,545,475**	8,545,475

Details of the subsidiaries as at 31 December 2012 are as follows:

Name	**Place of registration**	**Principal activities**	**Particulars of registered capital**	**Interest held**
潍坊新普實業有限公司 Weifang Xinpu Industrial Co. Ltd. * (“Xinpu”)	PRC	Property investment	Registered capital of US$5,000,000	25% (Directly held)
潍坊昌升管理諮詢有限公司 Cheong Sung Management Consulting Company Ltd. *	PRC	Investment holding	Registered capital of RMB500,000	100% (Indirectly held)

SNI, which holds a 75% interest in Xinpu, is a company incorporated in the PRC and is a related party of the Group. Pursuant to the agreement entered into with SNI in 2009, the equity interest in Xinpu held in the name of SNI is held on behalf of the Company. Based on the legal opinion issued in 2014 by an independent law firm, such arrangement is legally valid and can provide the Company with the benefits of a shareholder. The Group has determined that it has obtained control over Xinpu by virtue of the arrangement. Accordingly, Xinpu has been accounted for as a subsidiary of the Company.

In accordance with the legal opinion, the above arrangement exposes the Group to risks including the risks that the equity interest held by SNI on behalf of the Company could be transferred, sealed under court orders or pledged by or for SNI, in which cases the Group could only claim the indemnification for its loss.

Acquisition and assumption of specific assets and liabilities

In January 2010, the Group entered into an agreement with 濰坊新星物業管理有限公司 (Weifang Xinxing Property Management Co., Ltd.*), Mr. SUN Xiyi and Ms. WANG Wei to acquire a 100% equity interest in 新建業置業發展（濰坊）有限公司 (New Industry Weifang Real Estate Development Co., Ltd.*) (“NIW”) for nil consideration. Further, the Group entered into an agreement with SNI which stipulated that all assets and liabilities of NIW existing at the date of acquisition, except for the Real Estate Development Enterprise Certificate, were held by the Group on behalf of SNI (“Other Assets and Liabilities”). The substance of the arrangements was the acquisition of the right to use the construction permit certificate of NIW for property development. The Other Assets and Liabilities are not included in the consolidated financial statements.

* For identification purpose only.

12. ACCOUNTS RECEIVABLE

	Group		Company	
	2012	2011	**2012**	2011
	RMB	*RMB*	***RMB***	*RMB*
Amounts due from SNI	**248,918,104**	222,433,620	**-**	-
Amounts due from a subsidiary	**-**	-	**265,944,251**	265,944,251
Amounts due from a third party	**21,680**	-	**-**	-
	248,939,784	222,433,620	**265,944,251**	265,944,251

The amounts due from SNI and a subsidiary are unsecured, interest-free and repayable on demand. Of the amounts due from SNI as at 31 December 2012, RMB222,433,620 and RMB26,484,484 (*2011: RMB24,250,000 and RMB198,183,620*) were past due for more than and less than one year respectively.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB	*RMB*	***RMB***	*RMB*
Cash at bank	**1,614,922**	35,678,285	**23,266**	4,089,636
Cash in hand	**3,508**	2,600	**-**	-
	1,618,430	35,680,885	**23,266**	4,089,636

Cash at bank 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.

14. ACCOUNTS PAYABLE

	Group		Company	
	2012	2011	**2012**	2011
	RMB	*RMB*	***RMB***	*RMB*
Amounts due to SNI	**-**	-	**36,010,262**	36,010,262
Amounts due to a director	**6,765,292**	2,196,493	**6,765,292**	2,196,493
Accruals	**944,460**	4,547,560	**944,460**	4,547,560
Other tax payable	**63,025,202**	59,956,250	**-**	-
	70,734,954	66,700,303	**43,720,014**	42,754,315

The amounts due to SNI and a director are unsecured, interest-free and repayable on demand.

15. ISSUED CAPITAL

	Company	
	2012	2011
	RMB	*RMB*
Ordinary share capital		
At beginning and **end of the reporting period**	**245,688,340**	245,688,340

The authorised share capital of the Company consists of 1,000,000,000 *(2011: 1,000,000,000)* ordinary shares with no par value. The issued and fully paid share capital of the Company consists of 11,000,000 *(2011: 11,000,000)* ordinary shares with no par value.

16. RESERVES

	Group			Company
	Capital reserves	**Accumulated profits/(losses)**	**Total reserves**	**Accumulated losses**
	RMB	*RMB*	*RMB*	*RMB*
At 1 January 2011	25,622,989	(12,535,501)	13,087,488	(4,481,541)
Profit (Loss) and total comprehensive income (loss) for the year	-	34,565,047	34,565,047	(5,381,752)
At 31 December 2011	25,622,989	22,029,546	47,652,535	(9,863,293)
At 1 January 2012	25,622,989	22,029,546	47,652,535	(9,863,293)
Loss and total comprehensive loss for the year	-	(14,920,964)	(14,920,964)	(5,032,069)
At 31 December 2012	**25,622,989**	**7,108,582**	**32,731,571**	**(14,895,362)**

The capital reserves comprise SNI's 75% equity interest in Xinpu that had been transferred to the Company without consideration during the period ended 31 December 2010. Since SNI and the Company were under common control at the time of the transaction, the benefit has been recognized as a deemed contribution from shareholders.

17. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2012, the Group incurred property development costs of RMB3,720,000 by assuming liabilities and sold properties for a total consideration receivable of RMB4,620,000.

During the year ended 31 December 2011, the Group purchased prepaid land lease payments of RMB45,000,000 and incurred property development costs of RMB10,000,000 by assuming liabilities. Moreover, the Group sold properties and prepaid land lease payments for a total consideration receivable of RMB280,230,000.

18. CONTINGENCIES

At the end of the reporting period, the Group had the following contingencies that are not disclosed elsewhere in the financial statements:

Liabilities of NIW
As disclosed in note 11 to the financial statements, the Group has acquired an equity interest in NIW but also entered into agreements with SNI so that it has not acquired the ownership or assumed the obligations of Other Assets and Liabilities of NIW. The substance of the arrangement is the acquisition of the right to use the construction permit certificate of NIW. As a legal owner, however, the Group will be exposed to the obligations of NIW where these are not settled by NIW. SNI and Mr. SUN Xiyi, the sole beneficial shareholder of SNI and an ex-director of the Company, have indemnified the Group against any losses that may arise from the obligations of NIW.

Indemnification: 九龍澗景區內商業用地
The Group entered into an agreement with SNI and Mr. SUN Xiyi on 30 September 2009, pursuant to which SNI agreed to transfer four parcels of land in the PRC, namely 山東省濰坊市坊子區九龍澗景區內商業用地 for which the valid State-owned Land Use Right Certificate had not been issued, to the Group for nil consideration. If the application for the certificate is not successful within 3 years, SNI and Mr. SUN Xiyi, being the guarantor, agree to compensate the Group with other land having an equivalent value. Based on the valuation report issued by DTZ, the land had an estimated value of RMB253,000,000 as at 31 December 2012 (*2011: RMB250,000,000*) on the assumption, among other things, that the valid Stated-owned Land Use Right Certificate had been issued to the land.

As at 31 December 2012 and the date of these financial statements, the application for the certificate had not yet been completed. In accordance with the legal opinion issued in 2014 by an independent law firm, the Group has the right to request SNI and Mr. SUN Xiyi to provide the indemnification for its loss incurred. However, given that no valid Stated-owned Land Use Right Certificate had been issued to the land, the Group, among other things, has to provide evidence to substantiate the commercial value of the land in order to claim the indemnification successfully.

18. CONTINGENCIES (CONTINUED)

Indemnification: 九龍澗自然公園風景區

On 30 September 2011, the Group entered into an agreement with a company controlled by Mr. SUN Xiyi, 濰坊九龍澗旅遊開發有限公司 (Weifang Kowloon Stream Tourism Development Co., Ltd.*), pursuant to which the Group agreed to acquire a parcel of land in the PRC, namely 山東省濰坊市坊子區九龍澗自然公園風景區 for a consideration of RMB550,000,000.

As at 31 December 2012 and the date of these financial statements, the transfer had not yet been completed and no consideration was paid. In accordance with the legal opinion issued, the Group has the right to request the vendor to provide the indemnification for its loss incurred. However, given that no consideration had been paid, the Group has to provide evidence to substantiate its loss incurred.

* For identification purpose only.

19. RELATED PARTY TRANSACTIONS

In addition to the transactions / information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties:

Name of related party	**Interested director**	**Nature of transaction**	**2012** ***RMB***	2011 *RMB*
SNI	Mr. SUN Xiyi	Sales of properties	**4,620,000**	280,230,000
SNI	Mr. SUN Xiyi	Rental income	**-**	11,750,000
SNI	Mr. SUN Xiyi	Purchases of properties	**-**	45,000,000
SNI	Mr. SUN Xiyi	Property development costs	**3,720,000**	10,000,000
SNI	Mr. SUN Xiyi	Management fee expenses	**3,000,000**	3,000,000

SNI is a company wholly owned by an ex-director of the Company, Mr. SUN Xiyi.

On 10 January 2010, the Group entered into an agreement with SNI and Mr. SUN Xiyi, pursuant to which SNI, among other things, made a commitment to the Group to transfer its high-quality property projects to the Group. The Group was given the first right of refusal to purchase and operate the high-quality property projects in accordance with the agreement which did not refer specifically to individual projects. Moreover, the agreement stipulated an annual management fee of RMB3,000,000 payable by the Group for the management services provided by SNI. A two-year notice is required in order to terminate the agreement.

20. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise bank balances, accounts receivable and accounts payable (which exclude other tax payable), which are mainly derived from its business activities. The main risk arising from the Group's financial instruments is credit risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on the Group's risk management and limits the Group's exposure to this risk to a minimum.

Credit risk
The carrying amount of financial assets on the financial statements represents the Group's maximum exposure to credit risk. The Group trades mainly with a related party, SNI. The outstanding balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. In this regard, the directors consider the Group's credit risk is not significant. At the end of the reporting period, the Group had a concentration of credit risk as 99% *(2011: 100%)* of the accounts receivable were due from the Group's largest debtor.

21. CAPITAL MANAGEMENT

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return of capital to shareholders or issue of new shares or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 2011.

22. EVENTS AFTER THE REPORTING PERIOD

On 23 December 2013, Mr. SUN Xiyi resigned as a director of the Company. The details of other changes in the board of directors of the Company can be found in the announcement of the Company on that date.

On 6 June 2013 and in January 2014, the Group entered into an agreement and a supplemental agreement with Mr. SUN Xiyi and SNI to transfer all its prepaid land lease payments to Mr. SUN Xiyi and SNI for a total consideration of RMB150,000,000 (the "Property Sale").

On 6 June 2013 and in January 2014, the Group entered into a conditional agreement and a supplemental agreement with third parties (the "Vendors") to acquire the 100% equity interest in a company established in the PRC on 9 August 2013, 威海明祥投資諮詢有限公司 (Weihai Ming Cheung Investment Consulting Co., Ltd.*) and its interest in a property development project in Shandong, 威韓商城 (Wei Han Mall*), for a total consideration of RMB400,000,000 (the "Proposed Acquisition"). At the date of these financial statements, the transaction had not yet been completed because its pre-requisites include, among other things, the approval of the relevant government authorities of the PRC. The transaction is scheduled to be approved by a shareholders' meeting of the Company in 2014.

22. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

On 7 June 2013 and in January 2014, the Group entered into an agreement and a supplemental agreement with Mr. SUN Xiyi, SNI and the Vendors, pursuant to which the amounts due from SNI to the Group (which include the consideration receivable derived from the Property Sale) will be used to offset against the amount due by the Group to the Vendors in relation to the Proposed Acquisition.

In 2013, the Group entered into an agreement with a third-party investor to jointly set up a company in the PRC to carry out sales, rental and property management of real estate in the PRC. On 10 December 2013, the company, 青島華威眾贏實業有限公司 (Qingdao Hua Wei Zhong Ying Industrial Co., Ltd.*), was established with a paid-up capital of US$5,000,000, of which US$1,250,000 and US$3,750,000 was contributed by the Group and the third-party investor respectively.

* For identification purpose only.