

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1 Reorganisation and basis of preparation

(a) Reorganisation

The Company was incorporated in the Cayman Islands on 1 August 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Laws of 1961 as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation proposal whereby ING Beijing Investment Company Limited ("ING Beijing") would become a wholly owned subsidiary of the Company to be implemented by way of a scheme of arrangement under section 166 of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong ("the Scheme") as stated in a document dated 13 January 2005 issued to the shareholders of ING Beijing, the Company became the holding company of the companies now comprising the group ("the Group") on 13 April 2005, the effective date of the Scheme. This was accomplished by the Company acquiring the entire issued share capital of ING Beijing, the then holding company of other subsidiaries, as set out in note 10 on the proforma financial information of the Company's 2004 annual report.

The listing of the shares of ING Beijing was withdrawn from The Stock Exchange of Hong Kong Limited ("HKSE") and the Company's shares were listed on the HKSE by way of introduction on 13 April 2005.

(b) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issuance by the Board of Directors on 20 September 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports", issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 30. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 April 2005.

In accordance with Statement of Standard Accounting Practice 27 "Accounting for group reconstructions", the consolidated income statement for the period ended 30 June 2005 includes the financial results of the companies which now comprise the Group for the period from 1 January 2005 (or the date of incorporation if later) to 30 June 2005 as if the current group structure had been in existence and remained unchanged throughout the period presented. The comparative figures as at 31 December 2004 and for the period ended 30 June 2004 have been presented on the same basis.

2 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs (which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretations or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following is a summary of the effect of the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

	Effect on consolidated balance sheet of adopting new accounting policies		
	HKAS 32 and HKAS 39	HKAS 31	Total
Increase in available-for-sale securities	\$ 13,600,000	\$ -	\$ 13,600,000
Increase in interest in associates	-	21,025,854	21,025,854
Decrease in non-trading investments	(13,600,000)	-	(13,600,000)
Decrease in interest in jointly controlled entities	-	(21,025,854)	(21,025,854)
Total effect at 1 January 2004 and 2005	\$ -	\$ -	\$ -

The changes in accounting policies resulted in the reclassification of certain assets of the Group and did not have any financial impact on the Group's results for the periods ended 30 June 2005 and 30 June 2004 and consolidated net assets as at 30 June 2005 and 31 December 2004.

- (a) *Financial instruments (HKAS 32, "Financial instruments: Disclosure and presentation" and HKAS 39, "Financial instruments: Recognition and measurement")*

In prior years, the accounting policies for financial instruments were as follows:

- (i) Investments held for trading were stated in the balance sheet at fair value. Changes in fair value were recognised in the consolidated income statement as they arise.
- (ii) Non-trading investments were stated in the balance sheet at fair value. Changes in fair value were recognised in the investment revaluation reserve until the investment was sold, collected or otherwise disposed of or until there was objective evidence that the investment was impaired, at which time the relevant cumulative gain or loss was transferred from the investment revaluation reserve to the consolidated income statement. Transfers from the investment revaluation reserve to the income statement as a result of impairments were reversed when the circumstances and events that led to the impairments ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

With effect from 1 January 2005, and in accordance with HKAS 39, all non-trading investments are classified as available-for-sale securities and carried at fair value. Changes in fair value are recognised in equity, unless there is objective evidence that an individual investment has been impaired. If there is objective evidence that an individual investment has been impaired, any amount held in the fair value reserve in respect of the investment is transferred to the income statement for the period in which the impairment is identified. Any subsequent increase in the fair value of available-for-sale securities is recognised directly in equity.

The adoption of HKAS 32 and HKAS 39 only resulted in a redesignation of all non-trading investments as available-for-sale securities. Such redesignation has no financial effect on the current and prior accounting periods except for the change in presentation.

(b) *Share option scheme (HKFRS 2 "Share-based payment")*

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within the equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained profits.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) all options granted to employees on or before 7 November 2002; and
- (ii) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

Since the options granted by the Group fall within category (i), the change in accounting policy has no impact on the Group's net assets and results for the current and prior periods. Details of the share option scheme can be found in the Company's 2004 annual report and note 16 on this interim financial report.

(c) HKAS 31, "Interests in joint ventures"

In prior years, a jointly controlled entity was defined as an entity which operated under a contractual arrangement between the Group and other parties, where the contractual arrangement established that the Group and one or more of the other parties shared joint control over the economic activity of the entity. An investment in a jointly controlled entity was accounted for in the Group's financial statements under the equity method and was initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the jointly controlled entity's net assets.

With effect from 1 January 2005, in accordance with HKAS 31, joint control exists only when the strategic financial and operating decisions of the joint venture require the venturers' unanimous consent. As a result of this, management reviewed the nature of an investment previously accounted for as an interest in a jointly controlled entity and concluded that this investment should be reclassified as an investment in an associate. The reclassification has been applied retrospectively. Such reclassification has no effect on the current and prior accounting periods except for the change in presentation.

3 Gains on investments

	<i>Note</i>	Six months ended 30 June	
		2005	2004
Gain on deemed disposal of associates	10(a)(i)	\$ 3,065,080	\$ -
Gain on disposal of 12,819,000 shares of Skyworth Digital Holdings Limited	11(c)	<u>-</u>	<u>16,938,629</u>

4 Turnover

The principal activity of the Company and of its subsidiaries is the holding of equity investments primarily in companies or entities with significant business interests or involvement in the PRC. In particular, the Group focuses on investing in Sino-foreign joint ventures in the PRC and companies with substantial operations or investments in the PRC.

Share of associates' turnover represents the Group's share of associates' invoiced value of goods sold.

Group turnover represents interest income and dividend income from listed investments and is analysed as follows:

	Six months ended 30 June	
	2005	2004
Interest income from deposits with banks	\$ 374,940	\$ 10,719
Dividend income from listed investments	<u>–</u>	<u>456,380</u>
	<u>\$ 374,940</u>	<u>\$ 467,099</u>

5 Segment reporting

Segment information is presented in respect of the Group's business segments which are based on the nature of business of its associates and other investee companies. No geographical segment information is presented as the revenue of the Group and its associates and the Group's results were substantially derived from the PRC.

The Group's associates and other investee companies comprise the following main business segments:

Manufacture of industrial products:	Electronic and electrical instruments.
Manufacture of consumer products:	Audio-visual products.
Real estate:	Development of residential and commercial properties for sale.

Segment revenue includes the Group's share of associates' turnover. Segment results include only those relating to the Group.

	Revenue		Segment results	
	Group and Group's share of associates' turnover		Contribution to (loss)/profit before taxation	
	Six months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004
Manufacture of industrial products	\$32,080,145	\$ 20,684,741	\$ (1,933,840)	\$ (2,794,355)
Manufacture of consumer products	-	456,380	(134,791)	17,089,473
Real estate	-	-	(979,391)	(4,286,113)
Unallocated	374,940	10,719	(2,848,626)	(3,002,636)
	<u>\$32,455,085</u>	<u>\$ 21,151,840</u>	<u>\$ (5,896,648)</u>	<u>\$ 7,006,369</u>

6 (Loss)/profit from operations

(Loss)/profit from operations is arrived at after charging/(crediting):

	Six months ended 30 June	
	2005	2004
(a) Other net loss:		
Net exchange loss	<u>\$ (20,366)</u>	<u>\$ (407)</u>
(b) Operating expenses:		
Administrative fees (Note)	\$ 374,353	\$ 343,114
Custodian fee	25,268	30,000
Legal and secretarial fees	545,199	435,809
Management fees (Note)	2,246,517	2,024,522
Other operating expenses	1,764,147	2,079,446
	<u>\$ 4,955,484</u>	<u>\$ 4,912,891</u>

Note: Administrative fees are paid to ING Management (Hong Kong) Limited, a wholly owned subsidiary of ING Groep N.V., pursuant to the agreements as disclosed in the 2004 directors' report. ING Groep N.V. is a substantial shareholder of the Company.

Management fees are paid to Baring Capital (China) Management Limited ("BCCM") pursuant to the terms of the agreements as disclosed in the 2004 directors' report. BCCM is also a wholly owned subsidiary of ING Groep N.V.

7 Share of losses of associates

	Six months ended 30 June	
	2005	2004 (Restated)
Share of results of associates	\$ (4,917,839)	\$ (5,486,061)
Share of associates' taxation	557,021	—
	<u>\$ (4,360,818)</u>	<u>\$ (5,486,061)</u>

8 Income tax

No provision for Hong Kong Profits Tax has been made for the period ended 30 June 2005 as the Group has no assessable profits for the period. There is no significant deferred taxation not provided for.

9 (Loss)/earnings per share

(a) Basic

The calculation of basic (loss)/earnings per share is based on loss attributable to equity holders of the company of \$5,896,648 (30 June 2004: profit attributable to equity holders of the company of \$7,006,369) and the 647,114,000 ordinary shares (30 June 2004: 539,514,000 ordinary shares) in issue during the period, being the shares that would have been in issue throughout the period if the Scheme as set out in note 1 on the interim financial report had become effective on 1 January 2004.

(b) Diluted

There were no potential ordinary shares during the period ended 30 June 2005.

Diluted earnings per share was not shown for the period ended 30 June 2004 as the potential ordinary shares were anti-dilutive.

10 Interest in associates

	At	At
	30 June	31 December
	2005	2004 (Restated)
Share of net assets	\$84,633,952	\$ 87,610,806
Amount due from an associate	1,681,116	964,435
Amount due to an associate	(7,956)	(7,942)
	<u>\$86,307,112</u>	<u>\$ 88,567,299</u>

Amounts due from/(to) associates are unsecured, interest free and have no fixed terms of repayment.

(a) *China Property Development (Holdings) Limited*

- (i) On 3 February 2005, 383 new ordinary shares of US\$0.01 each of the Group's associate, China Property Development (Holdings) Limited ("CPDH"), were allotted to certain related companies of a shareholder of CPDH at a price of US\$10,000 each. Upon the allotment, the Group's profit sharing ratio and proportion of voting rights held were diluted from 37.37% to 33.42% and from 22.88% to 20.49% respectively. The allotment of shares resulted in a gain on deemed disposal of \$3,065,080 which has been recognised in the consolidated income statement for the period.
- (ii) CPDH, through its wholly owned subsidiaries, Sound Advantage Limited ("Sound Advantage") and Choice Capital Limited ("Choice Capital"), acquired an 80% equity interest in World Lexus Pacific Limited ("World Lexus") in 2002. World Lexus' sole asset is a wholly owned PRC subsidiary, Beijing Pacific Palace Real Estate Development Co Ltd ("Beijing Pacific Palace"), which is engaged in a property development project at the Lido area of Jiangtai Town, Chaoyang District, Beijing, the PRC ("Pacific Town project").

The Pacific Town project is a medium density residential area with a mixed development of high rise apartments and villas. The development of the project will be carried out in several phases. Pre-sale of the properties of Phase I commenced in late August 2004. Resettlement work of Phase II and Phase III commenced in October 2004 and February 2005 respectively. Pre-sale of the properties of Phase II and Phase III is expected to commence in late 2005 and early 2006 respectively.

- (iii) CPDH acquired the remaining 20% equity interest in World Lexus from the former minority shareholders for a consideration of RMB40 million (equivalent to \$37.3 million) in November 2004. Pursuant to the equity transfer agreement, CPDH is also required to reimburse the preliminary costs amounting to RMB45 million (equivalent to \$42.4 million) of the Pacific Town project incurred by the minority shareholders prior to acquisition of the 80% equity interest in World Lexus by Sound Advantage and Choice Capital in 2002. The settlement of the consideration is secured by the 20% equity interest in World Lexus.

CPDH has withheld part of the consideration and reimbursement costs to cover certain contingent liabilities of Beijing Pacific Palace and World Lexus as set out in notes 19(b) and (c). Due to disputes between the minority shareholders over the proportion which should be received by each shareholder, the balance of the consideration and reimbursement after deducting the amount withheld was fully settled by a payment to the Hong Kong High Court pursuant to an application for interpleader relief filed by CPDH.

- (iv) During the period, CPDH paid total fees of US\$493,904 (equivalent to \$3.8 million) (period ended 30 June 2004: US\$494,781, equivalent to \$3.8 million) to certain related parties of the Group who act as fund manager, administrator and project manager pursuant to the private placement memorandum of CPDH dated 13 September 2003. These related parties are either companies wholly owned by ING Groep N.V. or companies in which a director of the Company is a member of the senior management.

(b) *Beijing Far East Instrument Company Limited*

- (i) The Group holds a 35% equity interest in Beijing Far East Instrument Company Limited ("Beijing Far East"). Beijing Far East was classified as an interest in a jointly controlled entity in the Group's financial statements in prior years. As a result of the adoption of HKAS 31, this investment has been reclassified as an interest in an associate during the period.
- (ii) In March 2002, the Group entered into a conditional agreement with Beijing Capital Group pursuant to which, the Group agreed to sell an equity interest of 9% in Beijing Far East for a consideration of approximately RMB14 million (equivalent to \$13 million), subject to the fulfilment of certain conditions. The consideration is payable over a period of 5 years. Up to 30 June 2005, the disposal has not been accounted for as the conditions have not been satisfied, including the settlement of the consideration. According to the agreement between the Group and Beijing Capital Group, Beijing Capital Group is required to transfer back the equity interest in Beijing Far East in relation to the unpaid portion of the consideration to the Group upon the expiry of the 5-year period ending 31 December 2006. The Group continues to account for the share of profit or loss attributable to the portion of equity interest for which the consideration has not been settled. As such, although the legal interest in Beijing Far East held by the Group was 26% at 30 June 2005, the Group has accounted for 35% of the losses of Beijing Far East for the period. A director of the Company is also a member of the senior management of Beijing Capital Group.

11 Available-for-sale securities

	<i>Note</i>	At 30 June 2005	At 31 December 2004
Investment in unlisted joint venture, at cost	<i>(a)</i>	\$ 61,495,650	\$ 61,495,650
Less: Impairment losses		<u>(61,495,650)</u>	<u>(61,495,650)</u>
		\$ -	\$ -
Investment in unlisted company, at cost	<i>(b)</i>	\$ 23,557,891	\$ 23,557,891
Less: Impairment losses		<u>(23,557,891)</u>	<u>(23,557,891)</u>
		\$ -	\$ -
Listed investments, at cost	<i>(c)</i>	\$ 9,000,000	\$ 9,000,000
Fair value adjustment		<u>4,600,000</u>	<u>4,600,000</u>
		<u>\$ 13,600,000</u>	<u>\$ 13,600,000</u>
		<u>\$ 13,600,000</u>	<u>\$ 13,600,000</u>

Notes:

- (a) The Group invested \$61,495,650 for an 18% equity interest in Beijing Asia Pacific First Star Communications Technology Co. Ltd. The directors considered the fair value to be nil at 30 June 2005.
- (b) The Group invested \$23,557,891 for a 10.44% equity interest in ChinaGo Limited. The directors considered the fair value to be nil at 30 June 2005.
- (c) During the period ended 30 June 2004, the Group disposed of 12,819,000 shares of Skyworth Digital Holdings Limited ("Skyworth Digital"), a company listed on the HKSE for a total consideration, net of expenses, of \$28,475,729, resulting in a gain on disposal of \$16,938,629.

Trading in the shares of Skyworth Digital on the HKSE has been suspended since 30 November 2004 due to alleged misappropriation of the company's assets by senior management. At 31 December 2004, the Group held 10,000,000 shares of Skyworth Digital which were stated at a directors' valuation of \$1.36 per share. A fair value adjustment of \$5,900,000 was charged to the fair value reserve at 31 December 2004. Skyworth Digital announced its audited interim results for the six-month period ended 30 September 2004 and annual results for the year ended 31 March 2005 in June 2005 and August 2005 respectively. Based on its annual report, Skyworth Digital has been operating normally and is profitable.

The Company's directors have taken into account the net asset value of \$1.30 per share based on Skyworth Digital's latest published audited financial statements and other currently available information and consider that there is no material change in the fair value of the shares in Skyworth Digital since 31 December 2004. At 30 June 2005, the 10,000,000 shares were stated at \$1.36 per share.

12 Investment deposit

The amount represents a purchase consideration paid to acquire a 15% equity interest in a joint venture entity in the PRC in 2003 pursuant to a purchase agreement dated 10 November 2003. The PRC joint venture is engaged in the development of residential properties at the Taiyanggong Zone F in Beijing, the PRC.

The purchase agreement expired as the equity transfer was not effected by 31 October 2004 due to a delay. According to a settlement agreement dated 10 May 2005, the investment deposit plus interest during the period from November 2003 to December 2005 totalling \$42 million was due to be refunded to the Group in two instalments on 30 June 2005 and 31 December 2005. The first instalment of \$5.7 million was received in July 2005. The Company's directors are of the opinion that the final instalment due on 31 December 2005 is fully recoverable and no provision is required at 30 June 2005. The deposit has been included under current assets at 30 June 2005.

13 Cash and cash equivalents

	At 30 June 2005	At 31 December 2004
Deposits with banks	\$44,142,382	\$ 33,828,693
Cash at bank and in hand	1,085,877	15,559,090
	<u>\$45,228,259</u>	<u>\$ 49,387,783</u>

14 Share capital

	<i>Note</i>	Number of ordinary shares of \$0.01 each	Amount
<i>Authorised:</i>			
On incorporation and at 31 December 2004		10,000,000	\$ 100,000
Increase in authorised share capital	<i>(a)</i>	<u>11,990,000,000</u>	<u>119,900,000</u>
Authorised share capital as at 30 June 2005		<u>12,000,000,000</u>	<u>\$ 120,000,000</u>
<i>Issued:</i>			
Share capital at 31 December 2003 <i>(Note)</i>		539,514,000	\$ 5,395,140
Issue of shares by ING Beijing in December 2004	<i>15(b)</i>	<u>107,600,000</u>	<u>1,076,000</u>
Share capital at 31 December 2004 <i>(Note)</i> and issued share capital as at 30 June 2005	<i>(b)</i>	<u>647,114,000</u>	<u>\$ 6,471,140</u>

Note: Share capital at 31 December 2004 and 31 December 2003 is based on the number of shares that would have been issued by the Company as consideration for the acquisition of the shares of ING Beijing if the Scheme had been effective on 31 December 2004 and 31 December 2003 respectively.

- (a) Pursuant to a written resolution of the sole shareholder of the Company dated 4 November 2004, the authorised share capital of the Company was increased from \$100,000 to \$120,000,000 by the creation of 11,990,000,000 additional ordinary shares of \$0.01 each, ranking pari passu in all respects with the existing ordinary shares of the Company conditional upon the Scheme becoming effective.
- (b) Pursuant to the Scheme described in note 1 on the interim financial report, the Company allotted and issued 637,114,000 ordinary shares of \$0.01 each, credited as fully paid, and also credited as fully paid the 10,000,000 nil paid ordinary shares of \$0.01 each, in consideration for the acquisition of the entire issued share capital of ING Beijing on 13 April 2005.

15 Reserves

	Attributable to equity holders of the company					Total
	Share premium <i>(note a)</i>	Special reserve <i>(note a)</i>	Exchange reserves	Fair value reserve	Accumulated losses	
At 1 January 2004	\$ 173,560,966	\$ 373,092,958	\$ 2,990,183	\$ 23,959,950	\$ (397,272,468)	\$ 176,331,589
Profit for the year	-	-	-	-	6,251,287	6,251,287
Exchange differences on translation of financial statements of PRC associates	-	-	131,601	-	-	131,601
Transfer to consolidated income statement on disposal of available-for-sale securities	-	-	-	(13,459,950)	-	(13,459,950)
Changes in fair value of available-for-sale securities	-	-	-	(5,900,000)	-	(5,900,000)
Shares issued by ING Beijing <i>(note (b))</i>	-	13,988,000	-	-	-	13,988,000
	<u>\$ 173,560,966</u>	<u>\$ 387,080,958</u>	<u>\$ 3,121,784</u>	<u>\$ 4,600,000</u>	<u>\$ (391,021,181)</u>	<u>\$ 177,342,527</u>
At 1 December 2004	\$ 173,560,966	\$ 387,080,958	\$ 3,121,784	\$ 4,600,000	\$ (391,021,181)	\$ 177,342,527
At 1 January 2005	\$ 173,560,966	\$ 387,080,958	\$ 3,121,784	\$ 4,600,000	\$ (391,021,181)	\$ 177,342,527
Loss for the period	\$ -	\$ -	\$ -	\$ -	\$ (5,896,648)	\$ (5,896,648)
At 30 June 2005	<u>\$ 173,560,966</u>	<u>\$ 387,080,958</u>	<u>\$ 3,121,784</u>	<u>\$ 4,600,000</u>	<u>\$ (396,917,829)</u>	<u>\$ 171,445,879</u>

(a) The excess of the value of the shares of ING Beijing acquired pursuant to the Scheme over the nominal value of the shares of the Company issued in exchange is credited to share premium. The difference between the amount recorded as share capital issued by the Company pursuant to the Scheme and the amount recorded for the share capital of ING Beijing acquired is included in the special reserve.

(b) On 29 December 2004, ING Beijing allotted and issued 107,600,000 new ordinary shares of \$0.10 each to Sense Control International Limited at a price of \$0.14 per share.

16 Equity compensation benefits

Prior to the Company's acquisition, ING Beijing operated a share option scheme under which the Board of Directors of ING Beijing may grant options to employees, including directors, of ING Beijing and its subsidiaries to subscribe for shares of ING Beijing. Each option gives the holder the right to subscribe for one share.

The share option scheme of ING Beijing was terminated and a new share option scheme was adopted by the Company effective 13 April 2005. All outstanding share options granted in prior periods under the share option scheme of ING Beijing lapsed in November 2004. Terms of the new share option scheme are similar to those of ING Beijing and are set out in the Company's 2004 directors' report.

There were no options granted under the new share option scheme during the period and there were no outstanding options as at 30 June 2005.

17 Net asset value per share

The net asset value per share is computed based on the consolidated net assets of \$177,917,019 (31 December 2004: \$183,813,667) and 647,114,000 ordinary shares in issue as at 30 June 2005 (31 December 2004: 647,114,000 ordinary shares).

18 Capital commitments

At 30 June 2005, the Group's share of the capital commitments of an associate, Beijing Pacific Palace, outstanding not provided for in the interim financial report was as follows:

	At 30 June 2005	At 31 December 2004
Authorised and contracted for	\$ 36,562,000	\$ 45,570,000
Authorised but not contracted for	<u>270,557,000</u>	<u>261,613,000</u>
	<u><u>\$307,119,000</u></u>	<u><u>\$ 307,183,000</u></u>

19 Contingent liabilities

At 30 June 2005, the Group's associates, Beijing Pacific Palace and World Lexus, had the following contingent liabilities. The Group's interest in these associates is disclosed in note 10(a).

	At 30 June 2005	At 31 December 2004
(a) The Group's share of the guarantees given by Beijing Pacific Palace to financial institutions in respect of financing provided to the buyers of the properties of the Pacific Town project	<u>\$79,700,000</u>	<u>\$ 25,700,000</u>

- (b) In July 2004, Beijing Pacific Palace commenced legal proceedings against a consultancy company to recover a deposit paid of RMB14 million (equivalent to \$13 million) in relation to the Pacific Town project plus compensation of RMB34 million (equivalent to \$32 million) for the delay in resettlement work of Phase I. The consultancy company has made a counter claim of RMB20 million (equivalent to \$19 million) against Beijing Pacific Palace for breach of contract.

According to the judgement delivered in July 2005, the court dismissed the counter claim of the consultancy company and ordered it to repay RMB9 million (equivalent to \$8.5 million) to Beijing Pacific Palace plus interest for the period from 2001 to July 2005. Beijing Pacific Palace did not agree with the judgement and filed an appeal with the court in August 2005.

Beijing Pacific Palace had made a provision of RMB4 million (equivalent to \$3.8 million) against the deposit in prior years. Based on the judgement, there may be a further loss of RMB1 million (equivalent to \$0.9 million). However, Beijing Pacific Palace has made an appeal against the judgement and in any case any loss will be recoverable from the former minority shareholders under the terms of the equity transfer agreement for the acquisition of the 20% interest in World Lexus by CPDH. The amount of RMB10 million (equivalent to \$9.4 million) has been deducted from the consideration payable to the minority shareholders. Therefore, no further provision has been made in the interim financial report.

- (c) In April 2005, a third party commenced legal action involving a claim of RMB5.34 million (equivalent to \$5.03 million) plus interest and damages against World Lexus for services rendered pursuant to certain agreements which amounted to a total of RMB9.38 million (equivalent to \$8.84 million). As these agreements were not disclosed in the equity transfer agreement for the acquisition of 20% interest in World Lexus, this constitutes a breach of warranties in the equity transfer agreement and CPDH has deducted the amount claimed by the third party from the consideration payable to the minority shareholders. As such, no provision has been made in the interim financial report in this regard.

- (d) In April 2005, CPDH commenced arbitration proceedings against the former minority shareholders in respect of various items in dispute including the matters referred to in (b) and (c) above. The arbitration proceedings are still in progress as of the date of this interim financial report.
- (e) In July 2005, another third party made a claim of approximately RMB50 million (equivalent to \$47 million) against World Lexus pursuant to an agreement entered into by the third party and World Lexus in 2001 for services rendered in connection with the Pacific Town project. This agreement was also not disclosed in the equity transfer agreement and constitutes a breach of warranties.

As the claim made by the third party was not properly supported by documentary evidence, World Lexus has requested the third party to provide further information. World Lexus is also seeking legal advice on the validity of the claim. As this matter is still at the preliminary stage and no legal action has been formally taken by the third party, the Company's directors consider that no provision is required at 30 June 2005.

20 Related party transactions

- (a) During the period, the Group and its associates paid management fees and other expenses to certain related companies, the details of which are set out in notes 6(b) and 10(a)(iv) on this interim financial report.
- (b) The Group paid key management personnel compensation as follows:

	Six months ended	
	30 June	
	2005	2004
Salaries and other short-term employee benefits	\$ 423,534	\$ 389,672
Retirement scheme contributions	3,933	-
	<u>\$ 427,467</u>	<u>\$ 389,672</u>

21 Comparative figures

Certain comparative figures have been reclassified as a result of the adoption of the new HKFRSs set out in note 2.