

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2005

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) and with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim financial reporting.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis. The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 April 2005, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs” issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

#### Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised on a straight-line basis over a period of not exceeding 20 years and was assessed for the impairment at each balance sheet date whenever there is an indication for impairment.

In accordance with the provisions of HKFRS 3,

- goodwill arising from a business combination, for which the agreement date is on or after 1 May 2004, is carried at cost less any accumulated impairment losses;
- the Group cease amortisation of goodwill prospectively from 1 May 2004;
- accumulated amortisation as at 30 April 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
- from the year ended 30 April 2005 onwards, goodwill is tested annually for impairment or in the financial year in which acquisitions take place, as well as when there are indications of impairment.

As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period and comparative figures for period ended 31 October 2004 have been restated.

**Convertible note**

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principle impact of HKAS 32 on the Group is in relation to convertible note issued by the Company that contain both liability and equity components. Previously, convertible note was classified as liability on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative profit for the year ended 30 April 2005 has been restated in order to reflect the increase in effective interest on the liability component (see Note 2A for the financial impact).

**2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES**

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	<b>Six months ended</b>	
	<b>31.10.2005</b>	31.10.2004
	<b>HK\$'000</b>	HK\$'000
Decrease in amortisation of goodwill	–	10,550
Increase in interest on the liability component of convertible note	<u>(3,555)</u>	<u>–</u>
(Decrease) increase in profit for the period	<u><u>(3,555)</u></u>	<u><u>10,550</u></u>

The cumulative effects of the application of the new HKFRSs as at 30 April 2005 and 1 May 2005 are summarised below:

	As at 30 April 2005 (originally stated)	Adjustment HK'000	As at 30 April 2005 and 1 May 2005 (As restated)
	HK\$'000		HK\$'000
<b>Balance sheet items</b>			
Trade and other payables	359,416	(512)	<b>358,904</b>
Convertible note	<u>104,000</u>	<u>(13,164)</u>	<u><b>90,836</b></u>
<b>Total effects on assets and liabilities</b>	<u><u>463,416</u></u>	<u><u>(13,676)</u></u>	<u><u><b>449,740</b></u></u>
Share premium	118,961	(13,819)	<b>105,142</b>
Convertible note equity reserve	–	30,960	<b>30,960</b>
Retained earnings	61,334	(3,465)	<b>57,869</b>
Minority interests	<u>–</u>	<u>232,448</u>	<u><b>232,448</b></u>
<b>Total effects on equity</b>	<u><u>180,295</u></u>	<u><u>246,124</u></u>	<u><u><b>426,419</b></u></u>
Minority interest	<u>232,448</u>	<u>(232,448)</u>	<u>–</u>
	<u><u>412,743</u></u>	<u><u>13,676</u></u>	<u><u><b>426,419</b></u></u>

Other presentation changes include:

- a. In prior years, attributable share of results and net assets by minority interests were presented as a deduction from the Group's results and net assets for arriving at the attributable share of the Company's shareholders. Pursuant to the new HKFRSs, minority interests are presented as part of equity. Presentation of the condensed consolidated financial statements and comparative figures are adjusted accordingly.
- b. The Group's share of results of associates is net of tax. Previously, this is shown at gross according to the applicable accounting standards. Presentation of the condensed consolidated financial statements and comparative figures are adjusted accordingly.

### 3. TURNOVER AND BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Turnover

Turnover represents amounts received and receivable for properties sold by the Group to outside customers and services rendered is summarized as follows:

	<b>Six months ended</b>	
	<b>31.10.2005</b>	31.10.2004
	<b>HK\$'000</b>	HK\$'000
Sales of properties	<b>32,749</b>	593,025
Provision of property management consultancy services	—	537
	<u><b>32,749</b></u>	<u>593,562</u>

#### Business Segments

For management purposes, the Group is now principally engaged in property development and investment in the People's Republic of China ("PRC"). Accordingly, no business segment analysis is presented for the six months ended 31 October 2005 and six months ended 31 October 2004.

#### Geographical segments

Over 90% of the activities of the Group during the six months ended 31 October 2005 and six months ended 31 October 2004 were carried out in the PRC and over 90% of the assets of the Group were located in the PRC. Accordingly, no geographical analysis is presented.

### 4. TAXATION

	<b>Six months ended</b>	
	<b>31.10.2005</b>	31.10.2004
	<b>HK\$'000</b>	HK\$'000
The tax charge comprises:		
Current tax of a PRC subsidiary	<u><b>4,269</b></u>	<u>36,712</u>

No provision for Hong Kong profit tax has been made in the condensed consolidated financial statements as the Group did not derive any assessable profit arising in Hong Kong for the both periods.

The subsidiaries and associates established in the PRC are subject to enterprise income tax on its taxable income at the rate of 33%.

**5. PROFIT FOR THE PERIOD**

Profit for the period has been arrived at after charging (crediting):

	<b>Six months ended</b>	
	<b>31.10.2005</b>	31.10.2004
	<b>HK\$'000</b>	HK\$'000
Depreciation of property, plant and equipment	<u>523</u>	<u>339</u>
Interest on:		
Bank borrowings wholly repayable within five years	11,782	8,669
Convertible note	<u>4,075</u>	<u>–</u>
	15,857	8,669
Less: Amount capitalized under properties under development	<u>(11,782)</u>	<u>(8,664)</u>
	<u>4,075</u>	<u>5</u>
Interest income	(18,478)	(91)
Gain on disposal of subsidiaries	<u>(125,018)</u>	<u>(100,967)</u>

**6. DIVIDENDS**

On 27 September 2005, a dividend of HK2.2 cents per share (2004: Nil) was declared to shareholders as the final dividend for year ended 30 April 2005. Dividends of HK\$53,640,000 were paid to shareholders up to the date of this report.

The directors have determined that an interim dividend of HK1.5 cents per share (six months ended 31 October 2004: Nil) should be paid to the shareholders of the Company whose names appear in the Register of Members on 10 February 2006.

**7. EARNINGS PER SHARE**

The calculation of the basic and diluted earnings per share for the periods is based on the following data:

	<b>Six months ended</b>	
	<b>31.10.2005</b>	31.10.2004
	<b>HK\$'000</b>	HK\$'000
<b>Earnings:</b>		
Profit for the period and earnings for the purpose of basic earnings per share (profit for the period attributable to equity holders of the parent)	127,004	133,111
Effect of dilutive potential ordinary shares:		
Interest on convertible note	<u>4,075</u>	<u>–</u>
Earnings for the purposes of diluted earnings per share	131,079	133,111
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,483,632,950	2,075,940,643
Effect of dilutive potential ordinary shares:		
Convertible note	<u>400,000,000</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,883,632,950</u>	<u>2,075,940,643</u>

**8. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period of 90 to 180 days to its trade customers. The following is an aged analysis of accounts receivable at the reporting date:

	<b>31.10.2005</b>	30.4.2004
	<b>HK\$'000</b>	HK\$'000
0 – 90 days	<b>5,937</b>	197,720
91 – 180 days	–	–
Over 180 days	<b>98,801</b>	–
	<u><b>104,738</b></u>	<u>197,720</u>

Subsequent settlements of HK\$91,523,000 from the trade customers were received up to this report date.

**9. TRADE AND OTHER PAYABLES**

The following is an aged analysis of accounts payable at the reporting date:

	<b>31.10.2005</b>	30.4.2004
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	–	314,004
61 – 90 days	–	–
Over 90 days	<b>138,468</b>	–
	<u><b>138,468</b></u>	<u>314,004</u>

**10. AMOUNTS DUE TO RELATED COMPANIES**

The amounts are unsecured, non-interest bearing and are repayable on demand.

**11. SECURED BANK BORROWINGS**

During the period, the Group repaid secured bank borrowings of the amount of HK\$93,604,000. The Group also obtained new bank loans of the amount of HK\$477,115,000. The loans bear interest at the rates of 5.76% per annum to 6.048% per annum and are repayable after one year. The proceeds were used to finance the development of property projects of the Group.

**12. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Nominal value HK\$'000</b>
Authorised:		
Shares of HK\$0.01 per share at 30 April 2005 and 31 October 2005	<u>40,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
Shares of HK\$0.01 per share at 30 April 2005 and 31 October 2005	<u>2,483,632,950</u>	<u>24,836</u>

There was no change in share capital during the period.

**13. SHARE PREMIUM AND RESERVES**

	Attributable to equity holders of the parent						Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Convertible note equity reserve HK\$'000	Exchange reserve HK\$'000	(Accumulated losses) retained earnings HK\$'000	
At 1 May 2004	<u>17,038</u>	<u>368,234</u>	<u>221</u>	<u>-</u>	<u>70</u>	<u>(119,117)</u>	<u>266,446</u>
Exchange differences not recognised in condensed consolidated income statement	-	-	-	-	40	-	40
Disposal of an associate	-	-	(221)	-	-	-	(221)
Profit for the period	-	-	-	-	-	133,111	133,111
At 31 October 2004	<u>17,038</u>	<u>368,234</u>	<u>-</u>	<u>-</u>	<u>110</u>	<u>13,994</u>	<u>399,376</u>
Exchange differences not recognised in condensed consolidated income statement	-	-	-	-	30	-	30
Recognition of equity component of convertible note	-	-	-	30,960	-	-	30,960
Issue of shares by conversion of convertible note	88,104	-	-	-	-	-	88,104
Profit for the period	-	-	-	-	-	43,875	43,875
At 30 April 2005	<u>105,142</u>	<u>368,234</u>	<u>-</u>	<u>30,960</u>	<u>140</u>	<u>57,869</u>	<u>562,345</u>
Exchange differences not recognised in condensed consolidated income statement	-	-	-	-	10,497	5,950	16,447
Profit for the period	-	-	-	-	-	127,004	127,004
Dividend declared	-	(54,640)	-	-	-	-	(54,640)
At 31 October 2005	<u>105,142</u>	<u>313,594</u>	<u>-</u>	<u>30,960</u>	<u>10,637</u>	<u>190,823</u>	<u>651,156</u>

**14. DISPOSAL OF SUBSIDIARIES**

The net assets of the disposed subsidiaries at the date of disposal were as follows:

	<b>Six months ended</b>	
	<b>31.10.2005</b>	31.10.2004
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of	<b>89,982</b>	22,254
Released of reserves upon disposal:		
– Capital reserve	–	(221)
	<b>89,982</b>	22,033
Gain on disposal	<b>125,018</b>	100,967
<b>Total consideration, satisfied by:</b>		
Cash consideration	<b>180,000</b>	123,000
Deferred consideration	<b>35,000</b>	–
	<b>215,000</b>	123,000

The deferred consideration of HK\$35,000,000 was received by the Group as at the date of this report.

The disposed subsidiaries did not make any significant contribution to the results or cash flows of the Group during the interim period.

**15. CONTINGENCIES AND COMMITMENTS**

At 31 October 2005, the Company gave a guarantee in favour of Phoenix Satellite Television Company Limited, under which the Company guaranteed the due performance of Oasiscity Limited, a wholly owned subsidiary of the Group, of the Group's obligations under the subscription and shareholders' agreement related to Phoenix Tower project.

At 31 October 2005, the Group has given guarantees to banks amounting to approximately to HK\$674,788,000 (30 April 2005: HK\$704,389,000) in respect of certain facilities granted to the buyers of the Group's completed properties.

At 31 October 2005, the Group was committed to development expenditure of approximately HK\$634,318,000 (30 April 2005: HK\$321,744,000) for the completion of properties under development in PRC.

**16. RELATED PARTY TRANSACTION**

The Group has entered into a contract with Beijing Newshine Decoration Co., Ltd. ("Newshine Decoration") with total considerations of HK\$133,173,000. Newshine Decoration is under the control of Beijing Newshine Investment Group Ltd. ("Newshine Investment"), a shareholder of the Group's subsidiary, Beijing Jin Ma Wen Hua Yuan Properties Development Company Limited ("American Rock JV"), prior to 21 April 2005. Newshine Decoration provides decoration services for the properties under development held by American Rock JV. As at 31 October 2005, the Group has paid HK\$91,389,000 to Newshine Decoration.

**17. EVENTS AFTER BALANCE SHEET DATE**

Subsequent to the interim reporting date, the Group entered into agreements for the acquisitions of the entire interest of Lucky Merit Development Limited which holds 40% interest of American Rock JV and the entire interest of New Direction Development Limited which will holds 70% interest in Beijing New Shine Properties Development Limited ("Youngman Point JV") prior to the completion of the acquisition. The total acquisition costs of HK\$571,473,000 will be satisfied in new shares of the Company and the acquisitions are not completed up to the date of this report. Details of the acquisitions are set out in the Group's circular dated 20 January 2006.