

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006 (Unaudited)

1 BASIS OF PREPARATION

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 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 holding company of other subsidiaries, as set out in note 13 to the financial statements of the Company in 2005 annual report.

The listing of the shares of ING Beijing was withdrawn from The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Company’s shares were listed on the Stock Exchange by way of introduction on 13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

As the Scheme became effective on 13 April 2005, the effect of the Scheme is not reflected in the Company’s financial statements for the accounting period beginning on 1 January 2005. However, all of the entities which took part in the Scheme were under common control before and immediately after the Scheme becoming effective and, consequently, there was a continuation of the risks and benefits to the controlling party that existed prior to the combination. The results of the Group for the period ended 30 June 2005 have been prepared using the basis of merger accounting in accordance with Hong Kong Accounting Guideline 5 “Merger accounting for common control combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Accordingly, the results of the Group for the period ended 30 June 2005 included 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.

Basis of preparation

The condensed 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 and with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the HKICPA.

2 PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

3 BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's principal activities are holding of equity investments primarily in companies or other entities with significant business interests or involvement in the People's Republic of China ("the PRC") as a single business segment. No geographical segment information is presented as the results of the Group and its associates were substantially derived from the PRC.

4 TURNOVER

Turnover represents interest income and dividend income from available-for-sale securities and is analysed as follows:

	Six months ended 30 June	
	2006	2005
	HK\$	HK\$
Interest income from deposits with banks	492,645	374,940
Dividend income from available-for-sale securities	100,000	–
	<u>592,645</u>	<u>374,940</u>

5 SHARE OF PROFITS (LOSSES) OF ASSOCIATES

	Six months ended 30 June	
	2006	2005
	HK\$	HK\$
Share of results of associates	1,117,135	(4,917,839)
Share of associates' taxation	(250,678)	557,021
	<u>866,457</u>	<u>(4,360,818)</u>

6 LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2006	2005
	HK\$	HK\$
Other net gain (loss):		
Net exchange gain (loss)	10,674	(20,366)
Sundry	8	–
	<u>10,682</u>	<u>(20,366)</u>
Operating expenses:		
Administrative fees (<i>note a</i>)	(396,712)	(374,353)
Custodian fee	(25,000)	(25,268)
Depreciation	(87,334)	–
Legal and secretarial fees	(68,737)	(545,199)
Management fees (<i>note b</i>)	(2,158,262)	(2,246,517)
Other operating expenses	(2,614,176)	(1,764,147)
	<u>(5,350,221)</u>	<u>(4,955,484)</u>

Notes:

- (a) Administrative fees are paid to ING Management (Hong Kong) Limited, a wholly owned subsidiary of ING Groep N.V.. ING Groep N.V. is a substantial shareholder of the Company.
- (b) Management fees are paid to ING Real Estate (Asia) Limited (formerly known as “Baring Capital (China) Management Limited”), a wholly owned subsidiary of ING Groep N.V..

7 TAXATION

No provision for Hong Kong Profits Tax has been made for the periods ended 30 June 2006 and 2005 as the Group has no assessable profits for both periods. There is no significant unprovided deferred taxation during the period or at the balance sheet date.

8 DIVIDENDS

No dividend has been paid or declared by the Company during both periods.

9 LOSS PER SHARE

The calculation of the loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2006	2005
	HK\$	HK\$
Loss		
Loss for the purposes of loss per share	<u>2,543,562</u>	<u>5,896,648</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>630,513,503</u>	<u>647,114,000</u>

No diluted loss per share has been presented as there were no potential ordinary shares in both periods.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2006, the Group spent HK\$23,500 on acquisition of property, plant and equipment.

11 INTEREST IN ASSOCIATES

	At 30 June 2006 HK\$	At 31 December 2005 HK\$
Share of net assets	82,406,747	81,356,087
Amount due to an associate	<u>—</u>	<u>(8,094)</u>
	<u>82,406,747</u>	<u>81,347,993</u>

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

- (i) On 3 February 2005, 383 new ordinary shares of US\$0.01 each of the 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 HK\$3,065,080 which has been recognised in the consolidated income statement for the six months period ended 30 June 2005.
- (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. The completion certificate for Phase I is expected to be obtained in late 2006. Pre-sale of the properties of Phase IIA and Phase III commenced in September 2005 and December 2005, respectively. Resettlement work for Phase IIB and Phase III commenced during the year ended 31 December 2005.

11 INTEREST IN ASSOCIATES (continued)

(a) *China Property Development (Holdings) Limited ("CPDH") (continued)*

- (iii) CPDH acquired the remaining 20% equity interest in World Lexus from the former minority shareholders for a consideration of RMB40 million (equivalent to HK\$38.5 million) in November 2004. Pursuant to the equity transfer agreement ("20% Equity Transfer Agreement"), CPDH is also required to reimburse the preliminary costs amounting to RMB45 million (equivalent to HK\$43.3 million) of the Pacific Town project incurred by the minority shareholders prior to the acquisition of the 80% equity interest in World Lexus by Sound Advantage and Choice Capital from the same minority shareholders 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 amounting to RMB45 million, including RMB10 million recoverable under the 20% Equity Transfer Agreement, and other breaches of warranties, to cover certain contingent liabilities of Beijing Pacific Palace and World Lexus as set out in notes 18(a) and (b). 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 HK\$3.8 million) (period ended 30 June 2005: US\$493,904, equivalent to HK\$3.8 million) to certain related parties of the Group who act as fund manager, administrator and project manager. 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 key management.

11 INTEREST IN ASSOCIATES *(continued)*

(b) Beijing Far East Instrument Company Limited ("Beijing Far East")

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 HK\$13 million), subject to the fulfilment of certain conditions. The consideration is payable over a period of 5 years. Up to 30 June 2006, 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 2006, the Group has accounted for 35% of the result of Beijing Far East for the period. A director of the Company is also a member of the key management of Beijing Capital Group.

12 AVAILABLE-FOR-SALE SECURITIES

	At	At
	30 June	31 December
	2006	2005
	HK\$	HK\$
Listed investments, at cost	18,386,005	18,386,005
Fair value adjustments	3,250,695	3,590,945
	<u>21,636,700</u>	<u>21,976,950</u>

The amount represents the Group's investments in Skyworth Digital Holdings Limited ("Skyworth Digital") and China Construction Bank Corporation ("CCB"). These shares are listed on the Stock Exchange.

At 30 June 2006 and 31 December 2005, the Group held 10,000,000 shares and 3,954,000 shares in Skyworth Digital and CCB, respectively.

During the period, decrease in fair value of Skyworth Digital amounting to HK\$3,800,000 and increase in fair value of CCB amounting to HK\$3,459,750 were recognised in fair value reserve.

13 INVESTMENT DEPOSIT

The amount represents the 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 entity is engaged in the development of residential properties at the Taiyanggong Zone F in Beijing, the PRC. The purchase agreement has 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 of HK\$35 million plus compensation would be refunded by the vendor in two instalments on 30 June 2005 and 31 December 2005. The first instalment of HK\$5.7 million was received in July 2005 and accounted for as a partial repayment of the investment deposit in the financial statements.

The vendor did not pay the final instalment due on 31 December 2005. The Group is negotiating with the vendor to settle the remaining balance by transfer of an equity interest in a company which holds certain investment properties in the PRC to the Group. Negotiation is ongoing and no agreement has been signed up to the date of the approval of the interim financial statements.

Based on the status of the negotiations and information available on the investment properties, the directors consider that no allowance for bad and doubtful debts is required at 30 June 2006.

14 BANK BALANCES

	At	At
	30 June	31 December
	2006	2005
	HK\$	HK\$
Deposits with banks	30,066,222	38,065,027
Cash at bank	316,452	902,226
	<u>30,382,674</u>	<u>38,967,253</u>

Deposits with banks represent fixed deposits with maturity within 3 months from initial inception.

15 SHARE CAPITAL

	Number of shares	Share capital <i>HK\$</i>
Ordinary shares of HK\$0.01 each:		
Authorised:		
At 31 December 2005 and 30 June 2006	<u>12,000,000,000</u>	<u>120,000,000</u>
Issued and fully paid:		
At 1 January 2006	647,114,000	6,471,140
Repurchase of shares	<u>(23,830,000)</u>	<u>(238,300)</u>
At 30 June 2006	<u>623,284,000</u>	<u>6,232,840</u>

The Company repurchased its own shares on the Stock Exchange as follows:

Month	Number of shares	Price per share		Aggregate consideration <i>HK\$</i>
		Lowest <i>HK\$</i>	Highest <i>HK\$</i>	
February 2006	13,940,000	0.158	0.255	1,156,440
March 2006	<u>9,890,000</u>	0.220	0.225	<u>3,973,950</u>
	<u>23,830,000</u>			<u>5,130,390</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase was charged against accumulated losses. An amount equivalent to the nominal value of the shares cancelled was transferred from accumulated losses to the capital redemption reserve.

16 EQUITY COMPENSATION BENEFITS

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 of ING Beijing.

The share option scheme of ING Beijing was terminated and a new share option scheme of New Capital 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 of New Capital are similar to those of ING Beijing.

There were no options granted under the new share option scheme of New Capital during the period or outstanding options as at 30 June 2006.

17 NET ASSET VALUE PER SHARE

The net asset value per share as at 30 June 2006 is computed based on the consolidated net assets of HK\$163,175,473 as at 30 June 2006 (31 December 2005: HK\$171,005,472) and 623,284,000 ordinary shares in issue as at 30 June 2006 (31 December 2005: 647,114,000 ordinary shares).

18 CONTINGENT LIABILITIES

At 30 June 2006, 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 11 (a).

- (a) In July 2004, Beijing Pacific Palace commenced legal proceedings against a consultancy company to recover a deposit paid of RMB14 million (equivalent to HK\$13 million) in relation to the Pacific Town project plus compensation of RMB34 million (equivalent to HK\$33 million) for the delay in resettlement work of Phase I. The consultancy company has made a counter claim of RMB20 million (equivalent to HK\$19 million) against Beijing Pacific Palace for breach of contract.

18 CONTINGENT LIABILITIES *(continued)*

According to the first judgement delivered in July 2005, the Beijing Second Intermediate People's Court dismissed the counter claim of the consultancy company and ordered it to repay RMB9 million (equivalent to HK\$8.7 million) to Beijing Pacific Palace plus interest for the period from May 2002 to July 2005. Beijing Pacific Palace did not agree with the first judgement and filed an appeal with the Beijing Higher People's Court in August 2005. The final judgement was delivered in December 2005 whereby the Beijing Higher People's Court ordered the consultancy company to repay the entire amount of the deposit paid of RMB14 million plus interest for the period from May 2002 to the date of repayment. However, the claim of the compensation of RMB34 million by Beijing Pacific Palace was dismissed.

Beijing Pacific Palace had provided for an impairment loss of RMB4 million (equivalent to HK\$3.8 million) against the deposit in prior years. The remaining amount of RMB10 million (equivalent to HK\$9.6 million) is recoverable from the former minority shareholders under the terms of the 20% Equity Transfer Agreement (note 11(a)(iii)) and has been deducted from the consideration payable to the minority shareholders. As the consultancy company may not have the ability to repay the entire amount of the deposit and only RMB10 million is recoverable under the 20% Equity Transfer Agreement, the impairment loss of RMB4 million has not been reversed in the financial statements of Beijing Pacific Palace.

- (b) In April 2005, a third party made a claim of RMB5.3 million (equivalent to HK\$5.1 million) plus interest and damages against World Lexus for services rendered pursuant to certain agreements which amounted to a total of RMB9.4 million (equivalent to HK\$9.0 million). As these agreements were not disclosed in the 20% Equity Transfer Agreement, this constitutes a breach of warranties included in the 20% Equity Transfer Agreement and CPDH has deducted the amount claimed by the third party from the consideration payable to the minority shareholders. No provision has been made in the financial statements of World Lexus. In September 2005, the third party commenced legal proceedings in the Hong Kong High Court against World Lexus and subsequently, the former minority shareholders of World Lexus have filed an application to the Hong Kong High Court for an intervention to the litigation. The legal proceedings are still in progress as of the date the financial statements are authorised for issue by the directors.

18 CONTINGENT LIABILITIES (continued)

(c) In April 2005, CPDH and the minority shareholders of World Lexus commenced arbitration proceedings in respect of the deductions involving the matters referred to in (a) and (b) above as well as certain other deductions which CPDH has made under the terms of the 20% Equity Transfer Agreement. In January 2006, one of the former minority shareholders made a counter claim of an unquantified amount in respect of loss of the development right relating to part of the Pacific Town project. Exchange of witness statements in respect of the counter claim are in progress. By considering the legal advice available, the directors of CPDH are of the opinion that it is not likely to settle any liabilities arising from the counter claim even the counter claim might exist and therefore, no provision is required. The arbitration proceedings are still in progress as of the date the financial statements are authorised for issue by the directors.

(d) In July 2005, another third party made a claim of approximately RMB50 million (equivalent to HK\$48 million) against World Lexus pursuant to an agreement entered into by the third party with World Lexus in 2001 for services rendered in connection with the Pacific Town project. This agreement was also not disclosed in the 20% Equity Transfer Agreement and constitutes a breach of warranties.

CPDH has included this claim as part of the arbitration proceedings in (c) above. In July 2006, World Lexus was provided with a confirmation from the third party confirming that the third party has waived the rights under the alleged agreement and has withdrawn the claim. The directors of CPDH consider that no provision is required as any loss will be recoverable from the former minority shareholders under the terms of the 20% Equity Transfer Agreement.

(e) The directors of the Company, after considering the status of the above litigations and claims and the information provided by the directors of CPDH and World Lexus, are of the opinion that no provision or additional impairment loss is required to be made in the financial statements of the Group's associates which are used for equity accounting in the financial statements of the Group.

19 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 and 11(a)(iv) on this interim financial report.
- (b) The Group paid key management personnel compensation as follows:

	Six months ended 30 June	
	2006	2005
	HK\$	<i>HK\$</i>
Salaries and other short-term employee benefits	652,741	423,534
Retirement scheme contributions	3,000	3,933
	<hr/> 655,741 <hr/>	<hr/> 427,467 <hr/>

20 COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the presentation in the current period.