

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 OCTOBER 2006

1. BASIS OF PREPARATION

The unaudited 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 and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values.

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 April 2006 except as described below:

Investments held for trading

The investments held for trading are initially measured at fair value. At each balance sheet date subsequent to initial recognition, investments held for trading are measured at fair value with changes in fair value recognized directly in income statement in the period in which they arise.

Derivative financial instrument

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Derivative financial instrument (Continued)

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at the fair value with changes in fair value recognised in profit or loss.

In the current period, the Group has adopted a number of new standards, amendments and interpretations issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of these new standards, amendments and interpretations has resulted in changes to the Group's accounting policies in the following area that have no material impact on the results for the current period:

Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and Hong Kong Financial Reporting Standard ("HKFRS") 4 (Amendments) "Financial Guarantee Contracts" which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Group acts as the issuer of the financial guarantee contracts

Prior to 1 May 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount could be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial guarantee contracts (Continued)

The Group acts as the issuer of the financial guarantee contracts (Continued)

In relation to the financial guarantee contracts provided in respect of mortgage facilities for certain property purchasers, the Group has applied the transitional provision in HKAS 39. As the fair value of the financial guarantee contracts is insignificant, this change in accounting policy has had no effect on the Group's result for the current and/or prior accounting period.

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 new standard, amendment or interpretations will have no material impact on the results and the financial positions of the Group.

HKAS 1 (Amendment)	Capital Disclosure 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
HK(IFRIC) – INT 10	Interim financial reporting and impairment ⁵

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

² Effective for annual periods beginning on or after 1 October 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.

⁵ Effective for annual periods beginning on or after 1 November 2006.

3. REVENUE AND BUSINESS SEGMENTS

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

	Six months ended	
	31.10.2006	31.10.2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Sales of properties	1,979,267	32,749
Provision of property management service	15	–
	1,979,282	32,749

3. REVENUE AND BUSINESS SEGMENTS (Continued)

Business segments

For management purposes, the Group is currently organised into two operating divisions – sales of properties and property investment. The operation of property investment business commenced in August 2006. The Group was principally engaged in one operating division of sales of properties for the six months ended 31 October 2005 and so no business segment analysis is presented.

The Group's revenue and contribution to profit analysed by business segments for the six months ended 31 October 2006 are as followings:

	Sales of properties HK\$'000 (Unaudited)	Property investment HK\$'000 (Unaudited)	Unallocated HK\$'000 (Unaudited)	Consolidated HK\$'000 (Unaudited)
REVENUE				
External sales	1,979,267	–	6,302	1,985,569
Inter-segment sales	–	–	(6,287)	(6,287)
Total	<u>1,979,267</u>	<u>–</u>	<u>15</u>	<u>1,979,282</u>
Inter-segment sales are charged at prevailing market rates.				
RESULT				
Segment result	<u>418,669</u>	<u>133,806</u>	<u>(546)</u>	<u>551,929</u>
Unallocated corporate expenses				(18,431)
Other income				39,338
Change in fair value of derivative financial instrument				8,780
Share of losses of associates	(5,258)	–	–	(5,258)
Finance costs				<u>(53,267)</u>
Profit before taxation				523,091
Income tax expense				<u>(126,716)</u>
Profit for the period				<u>396,375</u>

4. COST OF SALES

Cost of sales included land appreciation tax in the People's Republic of China ("the PRC") of HK\$98,255,000 (2005: nil).

5. INCOME TAX EXPENSE

	Six months ended	
	31.10.2006	31.10.2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The income tax expense comprises:		
Current tax – PRC enterprise income tax	142,570	4,269
Deferred taxation (note 16)	(15,854)	–
	126,716	4,269

No provision for Hong Kong Profits Tax has been made in the unaudited condensed consolidated financial statements as the Group did not derive any assessable profit in Hong Kong for the period.

The Group's subsidiaries established in the PRC are subject to PRC enterprise income tax on their taxable income at the rate of 33%. A subsidiary established in Shenzhen Special Economic Zone in the PRC is entitled to a preferential rate of 15%.

6. PROFIT FOR THE PERIOD

	Six months ended	
	31.10.2006	31.10.2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of plant and equipment	1,308	523
Effective interest on convertible notes	41,129	4,075
Interest expense on loan payable	9,046	–
Imputed interest expense on loan payable	3,092	–
Interest income on:		
Bank deposits	(1,445)	(430)
Loan to an associate	(5,440)	(18,048)
Other loans	(4,532)	–
Exchange gain	(16,334)	–
Dividend income from investments held for trading	(11,676)	–
Gain on disposal of subsidiaries	–	(125,018)

7. DIVIDENDS

No dividends were paid during the period (2005: HK\$54,640,000). The directors have determined that an interim dividend of HK1.5 cents per share (2005: HK1.5 cents) should be paid to the shareholders of the Company whose names appear in the Register of Members on 30 January 2007.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company for the period is based on the following data:

	Six months ended	
	31.10.2006	31.10.2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings:		
Earnings for the purposes of basic earnings per share	400,637	127,004
Effect of dilutive potential ordinary shares in respect of interest on convertible notes	41,129	4,075
Earnings for the purposes of diluted earnings per share	441,766	131,079
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,956,814,978	2,483,632,950
Effect of dilutive potential ordinary shares on convertible notes	689,395,095	400,000,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	5,646,210,073	2,883,632,950

During the period ended 31 October 2006, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding share options granted since the exercise price of the option was higher than the average market price for shares for the period. No share option was granted as at 31 October 2005.

9. MOVEMENTS IN INVESTMENT PROPERTIES AND PLANT AND EQUIPMENT

During the period, the Group acquired investment properties, through acquisition of subsidiaries, at a cost of HK\$560,924,000.

During the period, properties held for sale with a carrying amount of HK\$334,843,000 has been transferred to investment property as a result of management's change in intention. The properties held for sale was fair-valued by external valuers, Savills Valuations and Professional Services Limited upon transfer to investment properties. The resulting increase in fair value of HK\$235,076,000 has been recognised directly in the unaudited condensed consolidated income statement.

The Group's remaining investment properties were fair-valued by external valuers, Savills Valuations and Professional Services Limited, at 31 October 2006. The resulting increase in fair value of investment properties of HK\$134,214,000 has been recognised directly in the unaudited condensed consolidated income statement.

During the period, the Group acquired certain plant and equipment at a cost of HK\$1,736,000. In addition, plant and equipment at a cost of HK\$3,979,000 was acquired through the acquisitions of subsidiaries (note 20).

10. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES

The amounts represent deposits paid for acquisitions of certain subsidiaries. The acquisitions of these subsidiaries are subject to certain conditions which are not yet satisfied at the balance sheet date. Capital commitments in respect of amounts contracted, but not provided in the financial statements in relation to the acquisition of these subsidiaries at 31 October 2006 are approximately HK\$190,836,000 (note 21).

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	31.10.2006	30.4.2006
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Trade receivables	71,448	9,820
Other receivables	118,221	99,978
Other tax prepayments	89,504	89,213
Other deposits and prepayments	29,612	28,275
Deposits paid for acquisition of properties under development	–	65,077
	308,785	292,363

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Continued)

The Group allows a credit period of 90 days to the buyers. The following is an aging analysis of trade receivables at the balance sheet date:

	31.10.2006 HK\$'000 (unaudited)	30.4.2006 HK\$'000 (audited)
0 – 90 days	71,448	4,948
90 – 180 days	–	–
Over 180 days	–	4,872
	71,448	9,820

12. ACCRUALS AND OTHER PAYABLES

	31.10.2006 HK\$'000 (unaudited)	30.4.2006 HK\$'000 (audited)
Accruals for properties under development	448,823	397,298
Other payables	279,462	61,712
Payables for acquisition of a subsidiary	180,341	–
	908,626	459,010

13. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, non-interest bearing and repayable on demand. The controlling shareholder of the Company, Mr. Li Song Xiao, is also the controlling shareholder of the related companies. The directors consider that the carrying amounts of the amounts due to the related companies approximate the fair values in view of the short-term nature of financial liability.

14. AMOUNT DUE TO A SHAREHOLDER

The amount is unsecured, non-interest bearing and repayable on demand. The directors consider that the fair value of the amount due to a shareholder approximates its carrying amount.

15. SECURED BANK BORROWINGS

During the period, the Group obtained new bank borrowings amounting to HK\$386,139,000 and acquired bank borrowings, through acquisitions of subsidiaries, at a cost of HK\$711,631,000. The borrowings bear interest at market rates and are repayable over a period of 5 years. The proceeds were used to finance the development of properties.

The effective interest rate (being the contractual interest rate) in the Group's borrowings are 6.44%.

16. DEFERRED TAX LIABILITIES

The following is the major deferred tax liability recognised and movement thereon during the current accounting period:

	Convertible notes HK\$'000 (unaudited)	Revaluation of investment properties HK\$'000 (unaudited)	Fair value adjustment on properties under development/ properties held for sale HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
At 1 May 2006	–	–	59,309	59,309
Exchange difference	–	–	834	834
Acquisition of subsidiaries	–	69,091	628,996	698,087
Charge to equity for the period	31,830	–	–	31,830
(Credit) charge to income for the period	(1,573)	79,552	(93,833)	(15,854)
At 31 October 2006	30,257	148,643	595,306	774,206

At 31 October 2006, the Group had unused tax losses of HK\$125,077,000 available for offset against future profits. The tax losses may be carried forward indefinitely. No deferred tax asset has been recognised in relation to tax losses as it is not probable that taxable profit will be available against future assessable profit.

During the period, unrecognised tax losses of approximately HK\$19,030,000 has been utilised to offset assessable profit from the period.

17. LOAN PAYABLE

The loan payable represents a fixed capital injection of 26.3% registered capital in a group entity at a nominal amount approximately HK\$247,525,000 from an independent third party with a fixed dividend at 6.5% per annum. According to the agreement, the independent third party has no right to share further profit of the group entity other than the 6.5% annual dividend. The Group will purchase from the independent third party the 26.3% registered capital in May 2008 in accordance with the contractual arrangement at a price of approximately HK\$286,139,000.

The effective interest rate of the loan payable is 7.27%

18. CONVERTIBLE NOTES

On 12 June 2006, the Company issued zero coupon convertible notes at par with a principal amount of HK\$1,340,000,000 ("Convertible Notes 2011"). Convertible Notes 2011 will be redeemed at 135.7% of the principal amount on 11 May 2011 ("Maturity Date").

The holders of Convertible Notes 2011 have the right to convert all or any portion of Convertible Notes 2011 into shares of the Company at an initial conversion price of HK\$1.5048 per share, subject to adjustment. The conversion right can be exercised at any time on or after 60 days from the date on which Convertible Notes 2011 is issued up to, and including, the close of business on the business day seven days prior to the Maturity Date.

On 12 June 2009, the holders of Convertible Notes 2011 can put back Convertible Notes 2011 to the Company at the price of 120.103% of principal amount ("Redemption Right of the Holder"). As the economic characteristics and risks of the Redemption Right of the Holder are not closely related to the host contract, the Redemption Right of the Holder is separately accounted for at fair value at each reporting date as derivative financial instrument. The fair value of the Redemption Right of the Holder at 12 June 2006 and 30 October 2006 was HK\$33,436,000 and HK\$24,656,000, respectively. Accordingly, a change in fair value of derivative financial instrument of approximate HK\$8,780,000 is credited to the unaudited condensed consolidated income statement for the period.

At any time after 12 June 2009 but not less than seven business days prior to the Maturity Date, the Company may redeem Convertible Notes 2011 in whole but not in part at a relevant redemption amount if the closing price of the shares for any 20 trading days out of the 30 consecutive trading days prior to the date upon which notice of such redemption is at least 130 per cent of the applicable early redemption amount divided by the conversion ratio ("Redemption Right of the Issuer"). As the economic characteristics and risks of the Redemption Right of the Issuer are not closely related to the host contract, the Redemption Right of the Issuer is separately accounted for at fair value at each reporting date as derivative financial instrument. The fair value of the Redemption Right of the Issuer is insignificant at both 12 June 2006 and 31 October 2006.

In the event of the Company's shares cease to be listed or admitted to trading on the Stock Exchange of Hong Kong Limited, each holder of the Convertible Notes 2011 shall have right, at such holder's option, to require the Company to redeem Convertible Notes 2011 on the twentieth business day after notice has been given to the holder at the early redemption amount ("Delisted Put Right"). As the economic characteristics and risks of the Delisted Put Right are not closely related to the host contract, the Delisted Put Right is separately accounted for at fair value at each reporting date as derivative financial instrument. The fair value of the Redemption Right of the Issuer is insignificant at both 12 June 2006 and 31 October 2006.

Convertible Notes 2011 contain three components, liability element, early redemption right and equity element. The equity element is presented in equity heading convertible note equity reserve. The effective interest rate of the liability element is 9.44%.

18. CONVERTIBLE NOTES (Continued)

The fair value of the liability component of Convertible Notes 2011 at 31 October 2006 determined based on the present value of the estimated future cash flows discounted at the prevailing market interest rate for an equivalent non-convertible loan at the balance sheet date, was approximately HK\$1,285,864,000.

The convertible note outstanding at 30 April 2006 has been converted into shares of the Company on 2 May 2006.

19. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Authorised:		
Shares of HK\$0.01 per share at 31 October 2006	<u>40,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
Shares of HK\$0.01 per share at 1 May 2006	4,079,339,487	40,793
Issue of shares by conversion of convertible notes	400,000,000	4,000
Issue of shares for acquisition of subsidiaries	<u>1,243,034,853</u>	<u>12,431</u>
	<u>5,722,374,340</u>	<u>57,224</u>

20. ACQUISITION OF SUBSIDIARIES***For the period ended 31 October 2006****(i) Chongqing China Enterprises Property Development Company Limited*

On 30 June 2006, the Group acquired 70% equity interest in Chongqing China Enterprises Property Development Company Limited ("Chongqing China Enterprises"), a company established in the PRC and engaged in property development in Chongqing, the PRC, at a cash consideration of HK\$444,886,000. Prior to the acquisition, the Group held 20% interest in Chongqing China Enterprises and Chongqing China Enterprises then became a 90% owned subsidiary of the Group subsequent to the acquisition. This acquisition has been accounted for by the purchase method of accounting.

20. ACQUISITION OF SUBSIDIARIES (Continued)

For the period ended 31 October 2006 (Continued)

(i) *Chongqing China Enterprises Property Development Company Limited* (Continued)

Details of the net assets acquired in respect of the acquisition of Chongqing China Enterprises are summarized below:

	2006		
	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
NET ASSETS ACQUIRED			
Plant and equipment	1,424	–	1,424
Properties under development	600,759	244,428	845,187
Trade and other receivables and prepayments	692	–	692
Bank balances and cash	68,520	–	68,520
Accruals and other payables	(1,590)	–	(1,590)
Secured bank borrowings	(198,020)	–	(198,020)
Deferred tax liabilities	–	(80,661)	(80,661)
	<u>471,785</u>	<u>163,767</u>	635,552
Minority interests			(63,556)
Interest in an associate			(127,110)
			<u>444,886</u>
Payables for acquisition of a subsidiary			(180,341)
Deposits paid for acquisition of a subsidiary			(168,269)
			<u>96,276</u>
Total consideration satisfied by cash			<u>96,276</u>
Net cash outflow arising on acquisition:			
Cash consideration paid			(96,276)
Bank balances and cash acquired			68,520
			<u>68,520</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary			<u>(27,756)</u>

20. ACQUISITION OF SUBSIDIARIES (Continued)

For the period ended 31 October 2006 (Continued)

(i) *Chongqing China Enterprises Property Development Company Limited* (Continued)

On 31 August 2006, the Group completed the acquisition of the remaining 10% equity interest in Chongqing China Enterprises at a consideration of HK\$59,308,000.

The subsidiary acquired during the period contributed nil to the Group's revenue and loss of HK\$4,997,000.

If the acquisition had been completed on 1 May 2006, total group's revenue for the period would have been HK\$1,979,282,000, and profit for the period would have been HK\$391,140,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 May 2006, nor is it intended to be a projection of future results.

(ii) *Beijing New Shine Land Investment Consultancy Limited*

On 31 August 2006, the Group acquired 50% equity interest in Beijing New Shine Land Investment Consultancy Limited ("Beijing New Shine Land Investment") at a cash consideration of HK\$257,426,000. Prior to this acquisition, the Group held 50% interest in Beijing New Shine Land Investment and Beijing New Shine Land Investment then became a wholly-owned subsidiary of the Group subsequent to the acquisition. Beijing New Shine Land Investment owns 80% equity interest in Beijing City Yushuiyuen Property Development Corporation Limited, a company established in the PRC and engaged in property development in Beijing, the PRC. This acquisition has been accounted for by the purchase method of accounting.

20. ACQUISITION OF SUBSIDIARIES (Continued)

For the period ended 31 October 2006 (Continued)

(ii) *Beijing New Shine Land Investment Consultancy Limited* (Continued)

Details of the net assets acquired in respect of the acquisition of Beijing New Shine Land Investment are summarized below:

	2006		
	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
NET ASSETS ACQUIRED			
Plant and equipment	592	–	592
Properties under development	1,030,224	867,937	1,898,161
Trade and other receivables and prepayments	57,383	–	57,383
Advances to suppliers	400,712	–	400,712
Tax recoverable	46,025	–	46,025
Amounts due from related companies	35,939	–	35,939
Pledged bank deposits	7,246	–	7,246
Bank balances and cash	127,838	–	127,838
Accruals and other payables	(168,730)	–	(168,730)
Advances from customers	(929,807)	–	(929,807)
Tax payable	(29,272)	–	(29,272)
Amounts due to fellow subsidiaries	(24,059)	–	(24,059)
Amounts due to immediate holding company	(375,727)	–	(375,727)
Secured bank borrowings	(186,878)	–	(186,878)
Deferred tax liabilities	–	(286,419)	(286,419)
	(8,514)	581,518	573,004
Minority interests			(58,152)
Interests in associates			(257,426)
Total consideration satisfied by cash			257,426
Net cash outflow arising on acquisition:			
Cash consideration paid			(257,426)
Bank balances and cash acquired			127,838
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(129,588)

20. ACQUISITION OF SUBSIDIARIES (Continued)

For the period ended 31 October 2006 (Continued)

(ii) *Beijing New Shine Land Investment Consultancy Limited* (Continued)

The subsidiary acquired during the period contributed HK\$893,276,000 to the Group's revenue and profit of HK\$52,944,000.

If the acquisition had been completed on 1 May 2006, total group's revenue for the period would have been HK\$1,979,282,000, and profit for the period would have been HK\$384,148,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 May 2006, nor is it intended to be a projection of future results.

Prior to the above acquisition, the Group acquired additional 25% equity interest in Beijing New Shine Land Investment on 30 June 2006 at a cash consideration of HK\$128,713,000.

(iii) *Lead Mix Limited and DIVO Success Limited*

On 31 August 2006, the Group acquired 100% equity interest in Lead Mix Limited ("Lead Mix") and DIVO Success Limited ("DIVO Success") at a consideration of HK\$758,252,000 which was settled by the issue of 1,243,034,853 ordinary shares of the Company (note a).

Lead Mix directly owns 100% equity interest in Joyful Fortune Limited, Capital Team Investment Limited, Eastern Winway Limited, Reliapoint Limited and Maxsun Limited, which are established in the British Virgin Islands and engaged in investment holding.

Besides, Lead Mix also indirectly owns 100% equity interest in Tianjin Zhongxin Huaan Real Estate Development Company Limited, Tianjin Zhongxin Binhai Real Estate Development Company Limited, Tianjin Zhongxin Xinjie Real Estate Development Company Limited, Tianjin Zhongxin Mingshi Real Estate Development Company Limited and Tianjin Zhongxin Jiaye Real Estate Development Company Limited which are established in the PRC and engaged in properties development in Tianjin, the PRC.

DIVO Success directly owns 100% of Tianjin Zhongxin Huacheng Real Estate Development Company Limited and Tianjin Xinrun Real Estate Development Company Limited, which are established in the PRC and engaged in properties development project in Tianjin, the PRC.

This acquisition has been accounted for by the purchase method of accounting.

20. ACQUISITION OF SUBSIDIARIES (Continued)

For the period ended 31 October 2006 (Continued)

(iii) *Lead Mix Limited and DIVO Success Limited* (Continued)

Details of the net assets acquired in respect of the acquisition of Lead Mix and DIVO Success are summarized below:

	2006		
	Acquiree's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
NET ASSETS ACQUIRED			
Plant and equipment	1,963	–	1,963
Investment properties	351,557	209,367	560,924
Properties under development	538,084	793,685	1,331,769
Trade and other receivables and prepayments	92,874	–	92,874
Tax recoverable	4,460	–	4,460
Bank balances and cash	204,897	–	204,897
Accruals and other payables	(48,533)	–	(48,533)
Advances from customers	(247,892)	–	(247,892)
Amounts due to related companies	(149,860)	–	(149,860)
Amounts due to group companies	(8,777)	–	(8,777)
Amount due to a shareholder	(20,222)	–	(20,222)
Secured bank borrowings	(326,733)	–	(326,733)
Deferred tax liabilities	–	(331,007)	(331,007)
	391,818	672,005	1,063,863
Represented by:			
Equity instruments of the Company (note a)			758,252
Deemed contribution from the controlling shareholder (note b)			305,611
			1,063,863
Net cash inflow arising on acquisition:			
Bank balances and cash acquired			204,897

20. ACQUISITION OF SUBSIDIARIES (Continued)**For the period ended 31 October 2006** (Continued)(iii) *Lead Mix Limited and DIVO Success Limited* (Continued)

The subsidiaries acquired during the period contributed HK\$24,771,000 to the Group's revenue and profit of HK\$83,498,000.

If the acquisition had been completed on 1 May 2006, total group's revenue for the period would have been HK\$1,979,282,000, and profit for the period would have been HK\$393,726,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 May 2006, nor is it intended to be a projection of future results.

Notes:

- (a) Pursuant to the sales and purchase agreements for the acquisition of Lead Mix and DIVO Success, 1,243,034,853 ordinary shares of the Company with par value of HK\$0.01 each were issued. The fair values of the shares issued for the acquisition of Lead Mix and DIVO Success amount to approximately HK\$758,252,000 determined using the quoted price at the date of the acquisition.
- (b) Lead Mix and DIVO Success are acquired from a controlling shareholder. The deemed contribution represents the difference between the fair value of the consideration and the fair value of the net assets acquired.

21. COMMITMENTS

At balance sheet date, the Group had the following commitments:

	31.10.2006	30.4.2006
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Authorised and contracted for but not provided:		
Development expenditure of properties in the PRC	793,557	285,220
Capital expenditure in respect of acquisitions of subsidiaries	190,836	364,817
Capital expenditure in respect of acquisitions of plant and equipment	2,681	–
	987,074	650,037

22. CONTINGENCIES

- (i) At balance sheet date, the Group had the following contingent liabilities:

	31.10.2006	30.4.2006
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Guarantees in respect of mortgage facilities for certain purchasers	<u>1,789,620</u>	<u>672,074</u>

The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. The Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends when the Group obtained the "property title certificate" for the mortgagees.

No provision has been made in the unaudited condensed consolidated financial statements for the financial guarantees as the fair value of the financial guarantee contracts is insignificant.

- (ii) Three subsidiaries of the Group have been named as joint defendants in a court action in the PRC in respect of an alleged breach of contractual undertakings for an amount of HK\$37,045,000 (30.4.2006: HK\$35,976,000). The subsidiaries and their legal counsel are strongly resisting this claim and the directors are of the opinion that settlement of the claim is remote. Accordingly, no provision for any potential liability has been made in the unaudited condensed consolidated financial statements.
- (iii) The State Administration of Taxation of the PRC issued a circular as Guo Shui Han 2004 No. 938 on 2 August 2004 to strengthen the levy of land appreciation tax on property developers. In the opinion of the directors, land appreciation tax shall not be levied in respect of properties already completed and full provision for land appreciation tax has not been made in the unaudited condensed consolidated financial statements. The Group has not, however, been able to secure written confirmation of those individual city policies, and the directors consider that the chance that full land appreciation tax might be levied is less than probable in accordance with the rule of State Administration of Taxation. Should such levies take place, land appreciation tax would be approximately HK\$55,160,000 (30.4.2006: HK\$26,013,000).

23. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

	Agency fee expenses	Interest income
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Related companies	8,238	–
An associate	–	5,440

The controlling shareholder of the Company, Mr. Li Song Xiao, is also the controlling shareholder of the above related companies. The agency fee expenses were paid to the related companies for providing property promotion and management services to the group companies.

Details of the balances with related parties as at balance sheet date are set out in the balance sheet and note 13 and 14 to the unaudited condensed consolidated financial statements.

A group entity had entered into agreements with Beijing Newshine Decoration Company Limited (“Newshine Decoration”) with a total considerations of RMB145,065,000 prior to the group entity became a subsidiary of the Company. Pursuant to the agreements, Newshine Decoration will provide decoration services for the properties under development held by the group entity. At 31 October 2006, RMB145,065,000 has been paid to Newshine Decoration and was included in advances to suppliers. The controlling shareholder of the Company, Mr. Li Song Xiao, is also the controlling shareholder of Newshine Decoration.

During the period ended 31 October 2006, a group entity had entered into agreements with 北京新松沃克建築裝飾工程有限公司 (“北京新松沃克”), with a total consideration of RMB1,596,000. Pursuant to the agreements, 北京新松沃克 provides decoration services for the properties under development held by the group entity. At 31 October 2006, RMB500,000 has been paid to 北京新松沃克 and was included in property under development. The controlling shareholder of the Company, Mr. Li Song Xiao, is also the controlling shareholder of 北京新松沃克.

23. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	31.10.2006	31.10.2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short-term benefits	2,270	600
Share-based payments	3,029	–
	5,299	600

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

24. POST BALANCE SHEET EVENTS

- (a) On 31 October 2006, the Group entered into an equity transfer agreement with an independent third party for acquisition of 100% equity interest in Honest State Limited, which owns 54.5% of Xian Chan Ba Construction Development Company Limited ("Xian Chan Ba"), for the consideration of approximately HK\$770,588,000 (as amended by a supplemental agreement entered by the Group and the independent third party on 13 November 2006). The consideration is to be satisfied in cash of the approximately HK\$219,918,000, by the allotment and issue of 340,000,000 shares of the Company and by issue of convertible notes of the Company with a term of six months of approximately HK\$168,317,000.

On 31 October 2006, the Group entered into an equity transfer agreements with two independent third parties separately for the acquisition of an aggregate 17% equity interest in Xian Chan Ba for the cash consideration of approximately HK\$137,255,000.

The acquisition of Xian Chan Ba have not been completed up to the date of the unaudited condensed consolidated financial statements. Details of the acquisition of 54.5% and 17% interest in Xian Chan Ba are included in a circular of the Company dated 8 December 2006.

24. POST BALANCE SHEET EVENTS (Continued)

- (b) On 22 November, 2006, the Group entered into agreement with two independent third parties to form a new entity (“New Entity”), a company which will engage in land development, relocation and construction project in Tianjin. The Group will hold 65% equity interest in the New Entity and is proposed to make capital investment of approximately HK\$117,000,000. Details of the joint venture project in Tianjin are included in an announcement of the Company dated 22 November 2006.
- (c) On 28 November 2006, the Group, the controlling shareholder and J.P. Morgan Securities (Asia Pacific) Limited (“J.P. Morgan”) entered into a Placing and Subscription Agreement for placing an aggregate of 688,000,000 existing shares to twelve independent investors on a fully-underwritten basis, through J.P Morgan, at HK\$1.132 per share. The controlling shareholder has conditionally agreed to subscribe for the 688,000,000 new shares at HK\$1.132 per share. Details of the placing are included in an announcement of a Company dated 28 November 2006.
- (d) On 1 December 2006, the Group entered into a sales and purchase agreement with Beijing New Shine Investment Group Company Limited (“Beijing New Shine Investment”) in which a controlling shareholder of the Company has equity interest for a proposed acquisition of 67% investment in Wunan Qianshiuwan Shuangya Wanquan Huayuen Company Limited (“Wunan Qianshiuwan”) at a consideration of approximately HK\$213,861,000.

On the same date, the Group entered into another sales and purchase agreement with Beijing Guoke Xinye Technology Development Company Limited (“Beijing Guoke”), a company whose controlling shareholder is Mr. Li Song Xiao, the controlling shareholder of the Group, for a proposed acquisition of additional 22.1% registered capital in Beijing New Shine Property Development Company Limited (“Beijing New Shine Property”) at a consideration of approximately HK\$89,109,000.

In addition, the Group entered into a sales and purchase agreement with Beijing Xi Hua Wei Yie Construction Materials Trading Company Limited, an independent third party, for acquisition of the remaining 15% interest in Beijing Jin Ma Wen Hua Yuan Properties Development Limited at a consideration of HK\$99,010,000.

Details of these three agreements are included in an announcement of the Company dated 2 January 2007.

24. POST BALANCE SHEET EVENTS (Continued)

- (e) On 31 December 2006, the Group entered into a cooperation development agreement (“Agreement I”) with an independent third party to jointly develop a construction of city infrastructure project (“Cooperation Project I”) in Pi Xian Xi Pu Town in Chengdu City, the PRC. The duration of the Agreement I is 30 months. The Group will contribute an investment amount of approximately HK\$693,069,000 for the first stage development and the Group has not confirm any capital commitment to the second stage of the Cooperation Project I. The Group is entitled to investment return out of the proceeds arising from an auction sale of the project after the development of the city infrastructure. After repayment to the Group of its investment amount under Cooperation Project I, the remaining proceeds from the auction sale shall be distributed between the Group and the independent third party.

On 3 January 2007, the Group entered into a cooperation framework agreement (“Agreement II”) with another independent third party to form a project company (“Project Company”), whose registered capital will be approximately HK\$198,200,000, to jointly develop a property project (“Cooperation Project II”) in Wen Jiang Xin Cheng District in Chengdu City, the PRC. The Group shall contribute approximately HK\$198,020,000 of which approximately HK\$138,614,000 is for its 70% registered capital in the Project Company and approximately HK\$59,406,000 is a shareholder loan to the Project Company.

According to Agreement II, the Group shall be solely responsible for, and the independent third party shall not be involved in, the operation and management of the Project Company. Within 24 months from the signing of Agreement II, the Group shall purchase from the independent third party (i) the 30% registered capital of approximately HK\$59,406,000 in the Project Company as well as (ii) a shareholder loan of approximately HK\$237,624,000 at a price of approximately HK\$396,040,000.

Details of the two agreements are included in an announcement of the Company dated 9 January 2007.