

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2006

1. BASIS OF PREPARATION

These 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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumption 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.

These condensed consolidated financial statements of the Group for the six months ended 31 December 2006 are unaudited and have been reviewed by the Audit Committee of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared under the historical cost convention, except for investment properties and financial instruments, which are measured at fair value or revalued amount, as appropriate.

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

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“HKFRS”) issued by the HKICPA, which are either effective for the accounting periods beginning on or after 1 December 2005 or 1 January 2006. The Group considered that the applications of these new HKFRSs do not have significant impact on the financial statements of the Group, except for the following areas, which resulted in changes to the Group’s accounting policies.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and 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 July 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 can be estimated reliably.

Upon the application of these amendments, a financial guarantee granted to a bank over the repayment of a loan by an investee issued by the Group and not designated as at fair value through profit or loss 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”.

The adoption of HKAS 39 and HKFRS 4 (Amendments) “Financial guarantee contracts” has resulted a decrease in retained profits and an increase in financial guarantee contracts on 1 July 2006, and an increase in profit for the period from 1 July 2006 to 31 December 2006, which financial effect is set out in note 3.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Net investment in a foreign operation

The Group has applied HKAS 21 (Amendment) “Net investment in a foreign operation”, which relates to inter-company loans which form part of net investment in a foreign operation and was effective for annual periods beginning on or after 1 January 2006. This amendment requires exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements. This requirement applies irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries. The adoption of this amendment has no significant impact on the results of operations and financial positions of the Group.

Potential impact arising from the recently issued accounting standards

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The Group is still not yet in the position to reasonably estimate the impact that may arise from the application of these standard, amendment and interpretations.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK (IFRIC) — INT 10	Interim Financial Reporting and Impairment ²
HK (IFRIC) — INT 11	HKFRS 2 — Group and Treasury Share Transactions ³

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

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

³ Effective for annual periods beginning on or after 1 March 2007.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results for the current period are as follows:

	HKAS 39 and HKFRS 4 (Amendment)	Total effect
	<i>HK\$'000</i>	<i>HK\$'000</i>
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For the six months ended 31 December 2006 (unaudited)		
Decrease in financial guarantee contracts	971	971
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Increase in profit for the period	971	971
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There is no effect on the profit for the period from 1 July 2005 to 31 December 2005 as HKAS 39 was not applied retrospectively.

The adoption of HKAS 39 and HKFRS 4 (Amendment) has the following impact on the consolidated balance sheet on 1 July 2006:

	<i>HK\$'000</i>
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(Increase) decrease in liabilities/equity	
Increase in financial guarantee contracts	(2,371)
Decrease in retained profits	2,371
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Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

4. SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions - property sales, property rental and port operations. These principal operating activities are the basis on which the Group reports its primary segmental information.

Principal activities are as follows:

Property sales	—	sales of properties developed by the Group
Property rental	—	leasing of investment properties
Port operations	—	operations of the port

Segmental information about these businesses is presented below:

	Property sales		Property rental		Port operations		Consolidated	
	Unaudited							
	Six months ended 31 December							
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER								
External sales	65,516	84,467	14,867	14,187	7,538	9,338	87,921	107,992
SEGMENT RESULT	11,674	15,518	24,181	139,805	1,044	6,191	36,899	161,514
Unallocated other income							676	665
Unallocated corporate expenses							(7,626)	(7,783)
Finance costs							(8,234)	(2,529)
Profit before taxation							21,715	151,867
Taxation							(7,308)	(8,071)
Profit for the period							14,407	143,796

Notes to the Condensed Consolidated Financial Statements (Continued)

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4. SEGMENTAL INFORMATION (Continued)

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market		Profit before taxation	
	Unaudited			
	Six months ended 31 December			
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong Special Administrative Region ("Hong Kong")	—	14,187	—	139,805
Other regions in the People's Republic of China ("PRC")	87,921	93,805	36,899	21,709
	87,921	107,992	36,899	161,514
Unallocated other income			676	665
Unallocated corporate expenses			(7,626)	(7,783)
Finance costs			(8,234)	(2,529)
Profit before taxation			21,715	151,867

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

5. OTHER INCOME

	Unaudited Six months ended 31 December	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Bank interest income	1,318	2,136
Exchange gain	7,396	5,600
Imputed interest income on loan receivables	190	369
Decrease in financial guarantee contracts	971	—
Sundry income	6,191	2,335
	16,066	10,440

6. DEPRECIATION AND AMORTISATION

	Unaudited Six months ended 31 December	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit before taxation for the period has been arrived at after charging the following items:		
Depreciation	994	880
Less: Amount capitalised and included in properties under development	—	(32)
	994	848
Amortisation of prepaid lease payments	1,574	—

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

7. FINANCE COSTS

	Unaudited	
	Six months ended	
	31 December	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	7,564	2,585
Less: Amount capitalised and included in properties under development by applying a capitalisation rate of nil % (2005: 6.7%) to expenditure on qualifying assets	—	(1,792)
Interest on loan from a related company wholly repayable within five years	—	1,207
Less: Amount capitalised and included in properties held for development by applying a capitalisation rate of nil % (2005: 5.76%) to expenditure on qualifying assets	—	(1,207)
Imputed interest expense on amount due to a related company	670	1,736
	8,234	2,529

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

8. TAXATION

	Unaudited Six months ended 31 December	
	2006 HK\$'000	2005 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
Current period	—	22,909
Overprovision in prior years	52	(1)
Income tax of other regions in the PRC		
Current period	6,171	6,303
Overprovision in prior years	—	(1,527)
Deferred tax liabilities		
Current period	1,085	(19,613)
	7,308	8,071

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the period.

PRC Foreign Enterprise Income Tax and land appreciation tax are calculated at the rates prevailing in the PRC.

Deferred tax has been provided on temporary differences using the current applicable rate.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

9. DIVIDENDS

On 17 January 2007, a final dividend of 3 Hong Kong cents (2005: 2 Hong Kong cents) per share was paid to the Company's shareholders as a final dividend for the year ended 30 June 2006.

The Directors have declared an interim dividend of 3 Hong Kong cents (2005: 2 Hong Kong cents) per share for the six months ended 31 December 2006 to all shareholders whose names appear on the register of members of the Company on 20 April 2007.

10. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the parent is based on profit attributable to equity holders of the parent of HK\$13,411,000 (2005: HK\$140,324,000) for the period and on 219,103,681 (2005: 219,103,681) ordinary shares in issue throughout the period.

The changes in the Group's accounting policies during the period as described in note 2 has no effect on the basic earnings per share for the period ended 31 December 2005.

No diluted earnings per share is shown as there is no dilutive effect on the earnings per share for both periods.

11. INVESTMENT PROPERTIES

The investment properties of the Group are situated in Shanghai, the PRC, which were completed and delivered to the Group on 30 September 2006 under pre-sale contracts. They were fair-valued by an independent valuer, Savills Valuation and Professional Services Limited, on 31 December 2006. The resulting increase in fair value of investment properties of HK\$5,973,000 has been recognised directly in the condensed consolidated income statement.

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12. TRADE AND OTHER RECEIVABLES

At 31 December 2006, the balance of trade and other receivables included trade receivables of HK\$8,711,000 (30 June 2006: HK\$2,823,000) and other receivables from home buyers who defaulted repayment to bank of HK\$32,069,000 (30 June 2006: HK\$30,979,000). For property sales, other than home loans, the Group allows an average credit period of 30 days to its customers. Rental receivables from tenants and service income receivables from customers are payable on presentation of invoices. The aged analysis of trade receivables is as follows:

	Unaudited At 31 December 2006 HK\$'000	Audited At 30 June 2006 HK\$'000
0 – 60 days	5,135	2,823
61 – 90 days	780	—
Over 90 days	2,796	—
	8,711	2,823

13. TRADE AND OTHER PAYABLES

At 31 December 2006, the balance of trade and other payables included trade payables of HK\$14,930,000 (30 June 2006: HK\$41,635,000). The aged analysis of trade payables is as follows:

	Unaudited At 31 December 2006 HK\$'000	Audited At 30 June 2006 HK\$'000
0 – 60 days	2,594	31,773
61 – 90 days	—	519
Over 90 days	12,336	9,343
	14,930	41,635

Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 31 December 2006

13. TRADE AND OTHER PAYABLES *(Continued)*

The carrying amount of the Group's trade and other payables at 31 December 2006 approximated to its fair value.

14. BANK LOANS

	Unaudited	Audited
	At 31	At 30
	December	June
	2006	2006
	HK\$'000	HK\$'000
The bank loans are repayable as follows:		
Within one year or on demand	27,900	—
More than one year, but not exceeding two years	24,600	—
More than two years, but not exceeding five years	343,000	—
	395,500	—
Less: Amount repayable within one year shown under current liabilities	(27,900)	—
Amount due after one year	367,600	—

The loans are secured and in Hong Kong dollars, bearing interest rate of about 0.6% over Hong Kong Interbank Offered Rate and repayable either in instalments or in one lump sum within five years.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

15. SHARE CAPITAL

	Number of shares		Amount	
	Unaudited At 31 December 2006	Audited At 30 June 2006	Unaudited At 31 December 2006 <i>HK\$'000</i>	Audited At 30 June 2006 <i>HK\$'000</i>
Ordinary shares of HK\$1.00 each Authorised	300,000,000	300,000,000	300,000	300,000
Issued	219,103,681	219,103,681	219,104	219,104

16. SHARE OPTION SCHEME

The Company adopted a share option scheme on 21 December 2001 (the “Share Option Scheme”).

The Share Option Scheme was adopted for the purpose of providing incentives to Directors, employees and eligible participants and will expire on 20 December 2011. Under the Share Option Scheme, the Board of Directors of the Company may grant options to Executive Directors, employees of the Company and its subsidiaries and such eligible participants at the discretion of the Board of Directors of the Company pursuant to the terms of the Share Option Scheme, to subscribe for shares of the Company at a price per share not less than the highest of i) the closing price of a share of the Company listed on the Stock Exchange at the date of grant of the option; ii) the average of the closing price of a share of the Company on the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and iii) the nominal value of a share of the Company.

No share option was granted to or exercised by any of the Company’s and its subsidiaries’ Directors, employees and such eligible participants under the Share Option Scheme since its adoption, and there were no share options outstanding as at 31 December 2006 and 31 December 2005.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

17. CONTINGENT LIABILITIES

The Group has given guarantees in respect of the settlement of home loans provided by banks to the home buyers of a property project in the PRC. At 31 December 2006, the Group had a maximum amount of such home loans which were subject to these guarantees of HK\$375,110,000 (30 June 2006: HK\$402,216,000). And these guarantees given by the Group has been accounted as financial guarantee contracts in the condensed consolidated balance sheet pursuant to the adoption of HKAS 39 and HKFRS 4 (Amendment) "Financial guarantee contracts".

18. RELATED PARTY TRANSACTIONS

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

	Unaudited	
	Six months ended	
	31 December	
	2006	2005
	HK\$'000	<i>HK\$'000</i>
Rental income	—	65
Guaranteed rental income from a related company (<i>note a</i>)	14,847	—
Reimbursement of property management fees and letting commission from a related company (<i>note b</i>)	4,839	—
Rental and management fees	3,883	693
Consultancy service fees	500	500
Finance costs and charge	—	1,517

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 31 December 2006

18. RELATED PARTY TRANSACTIONS (Continued)

Other outstanding balances with the following related companies and minority shareholders, which were unsecured, interest free and/or repayable on demand at 31 December 2006 and 30 June 2006 are as follows:

	Unaudited At 31 December 2006 HK\$'000	Audited At 30 June 2006 HK\$'000
Deposits due from related companies included in trade and other receivables	324	232
Amounts due from related companies included in trade and other receivables <i>(note c)</i>	27,337	6,513
Amounts due from minority shareholders	5,505	5,322
Amounts due to related companies included in trade and other payables	264	—
Amount due to a related company <i>(note d)</i>	27,567	26,897

Notes:

- a. The amount represents the amount of undertaking under the agreement (the "Acquisition Agreement") for acquisition of the subsidiaries entered into on 5 January 2006 between Eton Properties Group Limited (the "Vendor"), Eton Properties Limited as guarantor and Glory Diamond Inc. (the "Purchaser"), a wholly-owned subsidiary of the Company, given by the Vendor in favor of the Purchaser regarding rental yield in respect of the properties of the Group situated in Shanghai .
- b. It represents the amount of undertaking given by the Vendor pursuant to the Acquisition Agreement in favour of the Purchaser regarding reimbursement of the property management fees and the letting commission payable to letting agents in respect of the properties of the Group situated in Shanghai.
- c. It includes an other receivable from the Vendor recognised through the acquisition which represents the management's best estimate of the Vendor's undertaking stipulated in the Acquisition Agreement in respect of rental yield, reimbursement of the property management fees and the letting commission payable to letting agents with reference to the estimated market rentals and occupancy rates as at 31 December 2006 and 30 June 2006.

Notes to the Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 31 December 2006

18. RELATED PARTY TRANSACTIONS *(Continued)*

- d. The amount due to a related company represents the retained sum of HK\$30,000,000 out of total consideration under the Acquisition Agreement. The amount will be released by three yearly payments of HK\$10,000,000 each from the completion of the pre-sale contracts disclosed in note 11. The amount is measured at amortised cost at an effective interest rate of 5% per annum.

The related companies are companies in which certain directors have common directorship and/or beneficial interests.

The Group's key management personnel are all Directors, whose remuneration, all in short-term employee benefits, during the period amounted to HK\$908,000 (2005: HK\$579,000).