

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. Basis of preparation

The condensed financial statements has 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 (the "Listing Rules") and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual consolidated 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 issued by the HKICPA, which are effective for accounting periods beginning either on or after 1 December 2005 or 1 January 2006. The application of these new standards, amendments and interpretations has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is 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 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 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

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. SEGMENT INFORMATION

(a) Business segments

The Group's primary format for reporting segment information is business segments.

	Property development		Investment holding		Continuing operations Resort operation		Agricultural operation		Sub-total		Discontinued operation Skiing resort		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	-	-	-	-	-	-	562	224	562	224	-	-	562	224
Other revenue	60	102	5	1	-	-	9	103	74	103	-	-	74	103
Total	60	102	5	1	-	-	571	224	636	327	-	-	636	327
Segment results	(17,524)	(12,986)	(6,693)	(8,846)	(1,006)	(997)	200	6	(25,023)	(22,823)	-	(587)	(25,023)	(23,410)
Interest income									3	15	-	-	3	15
Loss from operating activities									(25,020)	(22,808)	-	(587)	(25,020)	(23,395)
Gain on disposal of a subsidiary									-	-	-	6,187	-	6,187
Finance costs									(3,903)	(2,697)	-	-	(3,903)	(2,697)
(Loss)/profit before taxation									(28,923)	(25,505)	-	5,600	(28,923)	(19,905)
Taxation									-	-	-	-	-	-
(Loss)/profit for the period									(28,923)	(25,505)	-	5,600	(28,923)	(19,905)

3. SEGMENT INFORMATION (continued)

(b) Geographical segments

	Hong Kong		Mainland China		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
			Six months ended 30 June			
Segment revenue:						
Sales to external customers	-	-	562	224	562	224
Other revenue	5	1	69	102	74	103
Total	5	1	631	326	636	327
Segment results	(6,693)	(8,846)	(18,327)	(14,549)	(25,020)	(23,395)

4. Loss from operating activities

Loss from operating activities has been arrived at after charging/(crediting):

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Amortisation of land lease premium	93	92
Depreciation of property, plant and equipment	1,348	1,962
Impairment losses on other receivables	1,894	-
Provision for legal claims	5,065	1,500
Provision for compensations	6,867	10,222
Interest income	(3)	(15)

5. Finance costs

	Six months ended	
	30.6.2006	30.6.2005
	HK\$'000	HK\$'000
Interest on bank loans and other loans wholly repayable within five years	3,901	2,669
Interest on finance leases	2	28
	3,903	2,697

6. Taxation

No provision for Hong Kong Profits tax has been made for the period as the Group did not generate any assessable profits arising in Hong Kong during the period (30.6.2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for tax is required for the Group's associates as no assessable profits were earned by the associates during the period (30.6.2005: Nil).

7. Discontinued operation

As a result of a disposal as detailed in Company's circular dated 24 June 2005, the skiing resort operation segment was reported as discontinued operation for the six months ended 30 June 2005.

8. Dividend

The Directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2006 (30.6.2005: Nil).

9. Loss per share

From continuing and discontinued operations

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the loss for the period attributable to the equity holders of the Company of HK\$28,840,000 (30.6.2005: HK\$19,787,000) and on the weighted average of 3,010,410,504 (30.6.2005: 3,010,410,504) ordinary shares in issue during the period.

From continuing operations

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

	Six months ended	
	30.6.2006 HK\$'000	30.6.2005 HK\$'000
Loss for the period attributable to equity holders of the Company	(28,840)	(19,787)
Less: Profit for the period from discontinued operation	-	5,600
Loss for the purpose of calculating the basic loss per share from continuing operations	(28,840)	(25,387)

The denominators used are the same as those detailed above for the basic loss per share.

9. Loss per share (continued)*From discontinued operation*

For the six months ended 30 June 2005, basic earning per share for discontinued operation is 0.186 cent based on the profit for the period from discontinued operation of HK\$5,600,000. The denominators used are the same as those detailed above for the basic loss per share.

10. Movements in property, plant and equipment and properties under development

During the current period, the Group spent approximately HK\$1,104,000 (31.12.2005: approximately HK\$4,845,000) and HK\$5,854,000 (31.12.2005: approximately HK\$42,243,000) on the construction of its construction in progress under property, plant and equipment and properties under development respectively.

11. Trade receivables

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to two to three months. Credit limits were set for customers. The aging analysis of such debtors is as follows:

	30.6.2006 HK\$'000	31.12.2005 <i>HK\$'000</i>
More than 3 months and less than 6 months	130	—

12. Trade payables

An aged analysis of the trade payables is as follows:

	30.6.2006 HK\$'000	31.12.2005 <i>HK\$'000</i>
Within 3 months	—	23,107
More than 3 months but less than 6 months	—	113
More than 6 months but less than 1 year	15,648	5,437
More than 1 year but less than 2 years	15,015	12,487
More than 2 years	11,820	17,512
	42,483	58,656

13. Due to a major shareholder

	30.6.2006 HK\$'000	31.12.2005 <i>HK\$'000</i>
Loans	-	22,762
Accrued interest	-	1,439
Current account	-	4,210
	-	28,411

The loans are unsecured, bearing interest at prime rate per annum (the prime rate was 7.75% at 31 December 2005) and repayable within 1 year.

On 4 January 2006, Gree Group (Hong Kong) Limited ("Gree"), ceased to be the major shareholder of the Company subsequent to its disposals of the shares of the Company to Madex International Company Limited ("Madex International") who then became the new major shareholder of the Company. Loans from Gree is included in interest bearing borrowings since it ceased to be the major shareholder of the Company.

14. Interest-bearing borrowings

	30.6.2006 HK\$'000	31.12.2005 <i>HK\$'000</i>
Other loans		
Unsecured	121,757	57,585

Other loans comprise:

- (i) As at 30 June 2006, the loans granted to the Company of approximately HK\$29,700,000 (31.12.2005: approximately HK\$29,700,000) bear interest at 14.4% (31.12.2005: 14.4%) per annum and are due for repayment between March 2005 and May 2005. As at the date of this report, the Company has not made any repayment to the lender.
- (ii) As at 30 June 2006, the loans granted to a subsidiary of approximately HK\$28,155,000 (31.12.2005: approximately HK\$27,885,000) bear interest at 6.58% (31.12.2005: 6.58%) per annum and are repayable within 1 year and are due between July 2006 and November 2006.
- (iii) As at 30 June 2006, the loans from Gree granted to the Company of approximately HK\$23,162,000 bear interest at prime rate (as at 30 June 2006, the prime rate is 8.25%) per annum and are due between November 2005 to January 2007.

14. Interest-bearing borrowings (continued)

- (iv) The Company entered into four loan agreements with a subsidiary of Madex International ("Madex Holding") on 13 January 2006, 17 February 2006, 6 March 2006 and 9 June 2006. Madex Holding agreed to grant the Company loan facilities up to a maximum of HK\$40,000,000 and the loans are bearing interest at prime rate per annum and repayable within 1 year. Madex Holding granted total loans of approximately HK\$40,740,000 to the Company during the current period.

15. Provisions

The movements of the provisions are as follows:

	Notes	30.6.2006 HK\$'000	31.12.2005 HK\$'000
(a) Provision for legal claims			
Balance brought forward		34,409	29,929
Exchange adjustments		228	252
Provision/(reversal of)			
– Guarantee issued by the Company	(i)	–	(4,365)
– Indemnity of a personal guarantee	(iii)	–	(1,063)
– Overdue consultation service fee	(vi)	–	1,500
– Compensation for breach of pre-sale agreements	(v)	5,065	10,116
		5,065	6,188
Repayment	(ii), (iv) & (v)	(10,466)	(1,960)
Settlement made	(i) & (iii)	(9,904)	–
		19,332	34,409
(b) Provision for compensations			
Balance brought forward		13,714	–
Exchange adjustments		133	–
Provision			
– Compensation for breach of pre-sale agreements	(v)	6,867	13,714
Repayment	(v)	(572)	–
		20,142	13,714
		39,474	48,123

15. Provisions *(continued)*

- (i) In January 2003, the Company received a writ from a court in Mainland China alleging that based on a guarantee granted by the Company to a company incorporated in Mainland China (the "Plaintiff") in respect of a loan made by the Plaintiff to a wholly owned subsidiary (incorporated in Mainland China) (the "Borrower") of the Company in 1998, the Company was obliged to repay the Plaintiff the loan principal and all unpaid interest amounting to RMB12,842,000 (approximately HK\$12,125,000) as the Borrower was deregistered in November 1999. The Company filed a defence against the claim in January 2003 and a judgment in favour of the Company was granted by the court in Mainland China in March 2004. However, the Plaintiff appealed to the Beijing People's Supreme Court (北京市高級人民法院) thereafter and the defence was rejected by the Supreme Court and a judgment in favour of the Plaintiff was made in June 2004. Therefore, a provision of RMB12,842,000 (approximately HK\$12,125,000) was made in 2004. On 13 March 2006, the Group agreed with the Plaintiff to reduce the claim to RMB6,500,000 (approximately HK\$6,250,000) after the Group had repaid RMB1,600,000 (approximately HK\$1,510,000) to the Plaintiff during 2005. Therefore, a reversal of RMB4,742,000 (approximately HK\$4,365,000) was made in 2005. The claim was fully settled during the current period.
- (ii) A wholly owned subsidiary incorporated in Mainland China of the Company entered into an agreement for pre-sale of properties developed by the subsidiary ("Pre-sale Agreement") with an independent third party ("Buyer") in Mainland China on 12 July 2002 for a consideration of RMB20,000,000 (approximately HK\$18,868,000). The subsidiary later entered into a buy-back agreement ("Buy-back Agreement") with the Buyer on 22 July 2002 whereby the subsidiary has an option to buy-back the above mentioned properties at a premium of 5.841% within 12 months from the date of the Pre-sale Agreement. Before the expiry of the option, the subsidiary exercised the option and paid a total sum of RMB21,168,200 (approximately HK\$19,970,000) to the Buyer. However, the Buyer breached the Buy-back Agreement and refused to revert the properties. Therefore, the subsidiary lodged a claim against the Buyer in Mainland China. A judgment was delivered on 25 August 2004, the court ordered that both the Pre-sale Agreement and the Buy-back Agreement were void and the subsidiary should make a compensation of RMB10,000,000 (approximately HK\$9,434,000) to the Buyer. Hence, a full provision for the compensation was made in 2004.

During the current period, the Group had repaid a total sum of RMB7,500,000 (approximately HK\$7,281,000) to the Buyer.

15. Provisions *(continued)*

- (iii) On 6 March 2003, the Group completed the disposal of 4 subsidiaries (“the Subsidiaries”). In December 2003, the buyer (the “Buyer”) of the Subsidiaries made a claim against the Company and alleged that based on a guarantee issued by a former director of the Company at the time that the Subsidiaries were disposed of, the Company would be liable to compensate the buyer at 50% of the net liabilities of the Subsidiaries exceeding RMB20,000,000, up to a maximum of RMB5,000,000. The claim as made by the Buyer was rejected by the court on 22 May 2004. However, the Company was served with a writ by a former director of the Company (“Plaintiff”) on 1 September 2004, alleging that based on an undertaking made by the Company in favour of the Plaintiff on 12 December 2002, the Company would be liable to indemnify the Plaintiff for any loss incurred by him upon the granting of his personal guarantee to the Buyer. As a result of his personal guarantee, a judgement was made by a Court in Mainland China against the Plaintiff to the effect that he had to compensate the Buyer a total sum of RMB5,000,000 in August 2004. He in turn claimed the same amount against the Company. On 5 November 2004, a judgement was made by the court whereby the Company should pay a compensation of RMB5,000,000 (approximately HK\$4,717,000) to the former director, therefore, a provision of RMB5,000,000 (approximately HK\$4,717,000) was made in 2004. On 21 December 2004, the Company made an appeal against the judgement in a supreme court in Mainland China. On 17 March 2006, the Group agreed with the Plaintiff to reduce the compensation to RMB3,800,000 (approximately HK\$3,654,000). Therefore, a reversal of RMB1,200,000 (approximately of HK\$1,063,000) was made in 2005. The compensation was fully settled during the current period.
- (iv) In May 2004, the Company was served a writ by a company claiming an amount of HK\$2,300,000, allegedly consultancy service fee owed by the Company. The Company filed a defence on 19 June 2004. Taking into account the costs in litigation and further legal advice, the Company settled the claim with the plaintiff by agreeing to pay a sum of HK\$1,500,000, therefore, a provision of the same amount was made in 2005. The Company had to pay the sum in 10 equal instalments of HK\$150,000 per instalment from October 2005. The Company had repaid a total sum of HK\$450,000 and HK\$900,000 to the plaintiff during 2005 and the current period respectively.

15. Provisions *(continued)*

- (v) A subsidiary of the Company in Mainland China entered into contracts with the buyers since 2002 for pre-sale of properties developed by the subsidiary ("Pre-sale Contracts"). According to the terms of the Pre-sale Contracts, if the above properties cannot be assigned to the buyers on or before 31 December 2004, the buyers of the properties would be eligible for compensation of 0.02% per day on the deposits paid as from 1 January 2005 until the hand over of the properties. During 2005, 130 buyers had taken legal actions to claim against the subsidiary for the compensations. Accordingly, the provision for legal claims of the 130 buyers and compensation for the rest of the other buyers in accordance with the terms of the Pre-sale Contracts amounted to approximately RMB5,217,000 (approximately HK\$5,065,000) and RMB7,073,000 (approximately HK\$6,867,000) was made in the current period respectively.

During 2005, provision for legal claims and compensation in accordance with the terms of the Pre-sale Contracts amounted to approximately RMB10,521,000 (approximately HK\$10,116,000) and RMB14,264,000 (approximately HK\$13,714,000) was made in the financial statements respectively.

The subsidiary had repaid a total sum of approximately RMB2,943,000 (approximately HK\$2,857,000) to the buyers during the current period.

16. Share capital

	Ordinary shares of HK\$0.1 each	
	Number of shares	<i>HK\$'000</i>
Authorised:		
At 31 December 2005 and 30 June 2006	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid:		
At 31 December 2005 and 30 June 2006	<u>3,010,410,504</u>	<u>301,041</u>

17. Related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following related party transactions.

	<i>Notes</i>	30.6.2006 HK\$'000	30.6.2005 <i>HK\$'000</i>
Management fee paid to Gree	<i>(i) & (iv)</i>	-	1,080
Loan interest expenses paid to Gree	<i>(ii) & (iv)</i>	18	348
Loan interest expenses paid to the fellow subsidiary of Gree	<i>(iii) & (iv)</i>	20	-
Loan interest expenses paid to Madex Holding	<i>(v)</i>	887	-

17. Related party transactions *(continued)*

- (i) On 2 November 2002, the Company entered into an agreement with Gree whereby Gree would assist the Company by seconding staff members to manage and advise on the Company's development. The maximum secondment fee would be HK\$350,000 per month. On 26 February 2004, the Company signed a new agreement with Gree pursuant to which the management fee paid was limited to a maximum of HK\$416,000 per month or HK\$5,000,000 per annum. On 8 September 2005, the Company signed a supplemental agreement with Gree pursuant to which the management fee paid was limited to a maximum of HK\$291,667 per month or HK\$3,500,000 per annum and the term of the agreement was for one year retrospective from 26 February 2005.
- (ii) On 1 November 2002, the Company issued a promissory note to Gree for HK\$980,000. The note is unsecured, bearing interest at prime rate in Hong Kong and without fixed repayment terms.
- On 18 November 2002, the Company entered into a loan agreement with Gree. Under the terms of the loan agreement, Gree would grant the Company loan facilities up to a maximum of HK\$9,000,000 for a period of 12 months. The loans were unsecured and bearing interest at 5% per annum.
- On 6 December 2002, the Company entered into a supplemental loan agreement with Gree. Under the terms of the supplemental loan agreement, Gree would grant the Company loan facilities up to a maximum of HK\$25,020,000 for a period of 12 months. The loans were unsecured and bearing interest at 5% per annum.
- On 21 April 2004, the Company entered into a second supplemental loan agreement with Gree to replace the above mentioned loan agreement and supplemental loan agreement. Under the terms of the second supplemental loan agreement, Gree would grant the Company loan facilities up to a maximum of HK\$18,000,000 for a period of 12 months. The loans were unsecured and bearing interest at 5% per annum.
- On 1 September 2005, the Company entered into a third supplementary loan agreement with Gree. Under the terms of the third supplementary loan agreement, Gree would grant the Company loan facilities up to a maximum of HK\$5,000,000 for a period of 12 months. The loans were unsecured and bearing interest at prime rate per annum, as at 30 June 2006, the prime rate is 8.25%.
- During the current period, total loans of approximately HK\$400,000 (2005: approximately HK\$3,675,000) were drawn down under the loan agreements.
- (iii) On 18 July 2005, 30 September 2005 and 1 November 2005, a subsidiary entered into three loan agreements of RMB25,000,000 (approximately HK\$24,038,000), RMB3,000,000 (approximately HK\$2,885,000) and RMB1,000,000 (approximately HK\$962,000) respectively with a fellow subsidiary of Gree. The loans were unsecured and bearing interest at 6.58% per annum and repayable within 1 year.
- (iv) As mentioned in note 13 to the financial statements, Gree ceased to be the major shareholder of the Company on 4 January 2006 subsequent to its disposals of the shares of the Company to Madex International.
- (v) Please refer to note 14(iv) to the financial statements for details of the transaction.

18. Contingent liabilities

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
(i) Guarantees Guarantees given to banks in respect of mortgage loans made to the purchasers of the Group's properties under development	200,928	195,272
(ii) Compensations As mentioned in note 15(v) to the financial statements, according to the terms of the pre-sale contracts of commodity properties, the buyers of the properties are eligible to claim a compensation of 0.02% per day on deposits paid until the hand over of the properties. As the date of hand over cannot be determined up to the date of approval of the financial statements, other than the provision for compensation as made in the current period, the Company is unable to quantify its financial effect after 30 June 2006.		

According to the terms of Pre-sale Contracts, the buyers of the properties developed by the subsidiary are eligible to cancel the contracts when the date of assignment is delayed for more than 90 days. Up to the date of the approval of the financial statements, no buyers requested for the cancellation of the contracts.

19. Capital commitments

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
Authorised and contracted for	49,071	21,970
Authorised, but not contracted for	6,413	12,170
	55,484	34,140

20. Post balance sheet events

- (i) On 28 July 2006, lenders of interest-bearing borrowings amounting to approximately HK\$81,017,000 agreed to extend the repayment date of their borrowings to 28 July 2007. Details of these borrowings are stated in note 14(i), 14(ii) and 14(iii) to the financial statements.
- (ii) A wholly owned subsidiary incorporated in Mainland China of the Company entered into an agreement for pre-sale of properties developed by the subsidiary with an independent third party in Mainland China on 11 August 2006 for a consideration of RMB198,000,000 (approximately HK\$192,233,000). Initial deposit of RMB56,000,000 (approximately HK\$54,369,000) had been received by the subsidiary up to the date of approval of this report.