Growth on
Solid Foundation




CHINA CHENGTONG DEVELOPMENT GROUP LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 217)

2005
ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Zhang Guotong *(Vice Chairman and Managing Director)*
Wang Hongxin

Non-Executive Directors

Ma Zhengwu *(Chairman)*
Hong Shuikun
Gu Laiyun
Xu Zhen

Independent Non-Executive Directors

Kwong Che Keung, Gordon
Tsui Yiu Wa, Alec
Lao Youan

AUDIT COMMITTEE

Kwong Che Keung, Gordon *(Chairman)*
Tsui Yiu Wa, Alec
Lao Youan
Hong Shuikun
Xu Zhen

REMUNERATION COMMITTEE

Tsui Yiu Wa, Alec *(Chairman)*
Kwong Che Keung, Gordon
Lao Youan
Ma Zhengwu
Zhang Guotong

COMPANY SECRETARY

Lai Ka Fai

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

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29/F, One International Finance Centre
1 Harbour View Street, Central
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SHARE REGISTRARS & TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46/F., Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong
Tel: (852) 2862-8628
Fax: (852) 2865-0990

SHARE LISTING

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited under Stock Code No. 217

CHAIRMAN'S STATEMENT

I would like to present hereby on behalf of the board of directors (the "Board") of China Chengtong Development Limited (the "Company") together with its subsidiaries (the "Group") for the financial period ended 31 December 2005.

For the year ended 31 December 2005 (the "year"), the Group recorded a turnover of HK$254 million, an increase of 20% over the turnover recorded in nine months ended 31 December 2004 ("the corresponding period"), while consolidated loss before minority interests was HK$46 million. This was the first year of loss recorded after three consecutive years of profit, and was mainly caused by the Group's strategic investment Suzhou Nanda Cement Company Limited ("Suzhou Nanda") which was affected by an unfavorable market environment and incurred operating loss as well as an impairment loss on property, plant and equipment as certain production facilities were terminated.

Benefiting from the Group's conservative financial strategy and excellent sales progress of the Beijing residential project, both of the Group's net current asset and liquidity has improved compared to 2004. As at 31 December 2005, the Group had net current asset of HK$149 million (31 December 2004: HK$96 million) and cash and bank balance of HK$115 million (31 December 2004: HK$86 million).

The Group started to participate into property development business of its ultimate controlling shareholder, China Chengtong Holdings Company ("CCHC") by acquiring a 70% interest of a residential development project located in Beijing from CCHC in 2004. During the year, the project's construction was completed, all residential units were sold and some of the apartment units have been delivered to the buyers. This indicated that the first project injected by CCHC has achieved success, which also enhanced the Group's experience and confidence in further commercial, residential and property development.

During the year, the Group continued to sell non-core asset as well as disposing poorly performed property with legal dispute. In the meantime, general trading business was temporary ceased and strategic investment Suzhou Nanda will be planned for restructuring or disposal, for the propose of building foundation for concentrating resources to develop a clearer core business.

The Group's ultimate controlling shareholder CCHC is the largest integrated warehousing logistics service enterprise in Mainland China, and has been selected by the State-owned Assets Supervision and Administration Commission ("SASAC") of the State Council as a pilot state-owned asset operating company during the year. CCHC was recently assigned a group of state-owned factories which further increased its land reserve.

Under this circumstance, the Group will build its foundation on fitting with the development of CCHC's warehousing logistics and asset management business, as well as taking advantage of CCHC's land resource value to fully develop commercial, residential and logistics property business. Simultaneously, the Group will try its best to continuously enhance the company's level of corporate governance, expand its professional management team, and improve operating and management standard, to speed up the Group's harmonic development.

The Group expected that Mainland China's urbanization process has just entered into its early accelerating stage, and this trend will sustain in the long term under the continue growth of China's economy and national income. To capitalize on this tremendous business opportunity emerging in a sustainable growing economy, the Group will make use of its own advantage to speed up the development of commercial, residential and logistics property development business.

On behalf of the Board, I would like to express my sincere gratitude to all shareholders, our business partners and customers for their understanding, support and confidence. I would also like to thank the whole management team and employees for their dedication and hard work throughout the year.

Ma Zhengwu
Chairman

Beijing, 21 April 2006

FINANCIAL RESULTS

For the year ended 31 December 2005, the Group's audited consolidated loss before minority interests was HK$46 million (the corresponding period: profit of HK$100 million). Loss per share was HK$2.7 cents. The Group's turnover was HK$254 million, 20% higher than the corresponding period as sales revenue from one of the Group's major business, a Beijing residential project, was partially recognized, and gross profit also increased to HK$11 million compared to HK$1 million in the corresponding period. In the meantime, affected by the continue recession of cement industry in the PRC, our strategic investment Suzhou Nanda recorded a decrease in turnover and an HK$24 million impairment loss on plant and equipment as some of its production facilities were terminated.

During the year, the Group continued to implement strict financial and cost control measures to control total administrative and operating expense.

BUSINESS REVIEW

Property Development

The Group acquired a 70% interest of a residential development project located in Beijing from CCHC in 2004 and has become the Group's key business driver in 2005. The project construction was completed on schedule in October 2005. Taking the opportunity of an increasing commercial residential market price and a decrease in transaction volume in Beijing, the Group sold all residential units of the project during the period and has delivered the properties to most of the buyers in first quarter of 2006 according to the terms of sales agreement. Most of the project's revenue and profit will be recognized in 2006.

Property Investments

Through recovering of a non-performing debt, the Group acquired its wholly-owned subsidiary, Merry World Associates Limited ("Merry World"), in 2003 which owns Property A and Property C of Level 3 of Li Wan Plaza, No. 9 Dexing Lu, Li Wan District, Guangzhou City, Guangdong, the PRC ("Property A" and "Property C" respectively). Merry World entered into property right litigations in 2004 and 2005 and amid an unfavorable litigation position, Merry World entered into two settlement agreements with Guangzhou Sui Nan Building Development Limited ("the Plaintiff") on 1 March 2006, where the Plaintiff and Merry World will each hold the title and right of receipt of Property A and Property C respectively. The entering into the settlement agreements enables the Group to retain Property C despite the dismissed appeal. Management of the Group has already made a provision of HK$33 million on this legal claim in year 2004 and a further HK$9 million provision was made this year. After entering into the settlement agreements, Property C is expected to contribute positive cash flow to the Group in 2006.

In January 2006, the Group through a wholly owned subsidiary has entered into a disposal agreement pursuant to which the Group has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire shareholding and the shareholder's loan of Price Sales Limited, a wholly owned subsidiary of the Company which owned an indirect investment interest in a Grade A office building located in Shanghai for US$24.7 million (equivalent to approximately HK$193 million). The Group's current asset will increase substantially after completion of the disposal agreement.

Strategic Investments

During the period, affected by an overall unfavorable cement industry in Mainland China, Suzhou Nanda has recorded a turnover of HK$46 million (the corresponding period: HK$82 million) and an operating loss of approximately HK$6 million. Suzhou Nanda also recorded a one time charge of impairment loss on property, plant and equipment due to termination of certain production facilities. The management of Suzhou Nanda has implemented a series of measures to control cost including substantial reduction of headcount and management's salary to minimize loss. Suzhou Nanda's operation has recently improved as the cement market of the PRC was stabilized.

Trading Business

Trading business recorded a turnover of HK$93 million. Since trading business only contributed to the Group minimal operating profit, to cope with the Group's strategic changes, general trading business was temporarily ceased starting in 2006 in order to concentrate our resources on core business.

Financial Position

During the year financial position of the Group continued to improve as result of a strong sales progress of the Beijing residential project, the Group's stringent financial management as well as conservative and reasonable cash management. Both net current assets and liquidity improved compare to 2004. As at 31 December 2005, the Group had net current assets of HK$149 million (31 December 2004: HK$96 million) and cash and bank balance of HK$115 million (31 December 2004: HK$86 million). The Group will continue to employ conservative and sound financial planning, ensuring a solid financial position to support future growth of the Company.

PROSPECTS

During the year, the Group's property development business initiated a good start by completing its residential property development project in Beijing. The Group expected that demand for commercial and residential development and logistics property in Mainland China will continue to grow driven by a continue and rapid increase in residence income and urbanization process. This demand will bring enormous business opportunity to the Group's future development.

CCHC, the Group's ultimate controlling shareholder is the largest integrated warehousing logistics service enterprise in Mainland China, and has been selected by SASAC of the State Council as the pilot state-owned asset operating company, which will assume significant role in the restructuring of pillar state-owned enterprises. During the period SASAC has assigned a few factories from a few pillar state-owned enterprises to CCHC for manage their assets. Under this circumstance, the Group will take advantage of CCHC's asset management and warehousing logistics resources, and continue to dispose non-core business asset in order to concentrate our resource to fully expand property and land resources development business.

Pledge of Assets

As at 31 December 2005, the Group's plant and machinery with aggregate carrying value of approximately HK$9 million and no property under development has been pledged as securities for the Group's borrowing and banking facilities.

Gearing Ratio

As at 31 December 2005, the Group's gearing ratio calculated on the basis of total bank loans, loans from minority interests and other loans of approximately HK$44 million and total assets of approximately HK$694 million was 0.06.

Liquidity and Capital Resources

At 31 December 2005, the Group had current assets and current liabilities of HK$552 million and HK$403 million respectively (31 December 2004: HK$291 million and HK$195 million respectively). The Group had cash and bank balances amounting to HK$115 million as at 31 December 2005 (31 December 2004: HK$86 million).

At 31 December 2005, the Group had no bank borrowings secured on certain properties owned by the Group. (31 December 2004: HK$111 million) The Group had unsecur˜- other loans of HK$7 million (31 December 2004: HK$7 million). The bank loans together with other loans of approximately HK$4 million are carrying interest at commercial rates while the remaining other loans are unsecured and interest free. The maturity profile of bank borrowings were nil for current year (31 December 2004: HK$17 million falling within one year, HK$94 million falling between two to five years).

The Company has not issued any additional share during the year ended 31 December 2005 (the corresponding period: nil).

Treasury Policy

The business activities of the Group were funded by bank borrowings, secured loans and cash generated from operating activities. The Group considers that fluctuations in exchange rates and market prices do not impose a significant risk to the Group since the level of foreign currency exposure is relatively immaterial as compared with its total assets value or outstanding debts.

Human Resources

At 31 December 2005, the Group employed a total of 203 employees, of which 14 were based in Hong Kong and 189 in the PRC. Employee's remunerations are determined in accordance with nature of their duties and remain competitive under current market trend.

DIVIDEND

The Board does not recommend any payment of final dividend for the year ended 31 December 2005 (nine months ended 31 December 2004: nil).

DIRECTORS

Mr. Ma Zhengwu

Aged 43, is the chairman and a non-executive director of the Group. Mr. Ma joined the Group in February 2003. Mr. Ma graduated from Beijing Chemical Technology College in 1985 and holds a bachelor degree in science, and also holds a master degree in business administration from Hunan University in 1999. Mr. Ma is well experienced in corporate management and has held senior management positions in various large enterprises. He serves as an independent director of a listed company in Mainland China and vice chairman of China Logistics and Purchasing Federation. He is also the chairman of China Chengtong Holdings Company, the ultimate controlling shareholder of the Company.

Mr. Zhang Guotong

Aged 42, is the vice chairman and the managing director of the Group. Mr. Zhang joined the Group in February 2003. Mr. Zhang graduated from Sun Yat-sen University in 1985 and holds a bachelor degree in economics. He has held senior position in various large companies in the PRC, including directorship of listed companies, chief executive of China Logistics Company in Mainland China and general manager of China National Materials Development & Investment Corporation. Mr. Zhang has extensive experience in investment, property development, assets management and corporate management. He is currently the director of China Chengtong Holdings Company, the ultimate controlling shareholder of the Company.

Mr. Wang Hongxin

Aged 42, is an executive director of the Group. Mr. Wang joined the Group in March 2005. Mr. Wang graduated from Jilin Normal University in the PRC with a bachelor degree of arts and an executive master of business administration degree from the Guanghua School of Management of Beijing University in the PRC. He was a director and a deputy general manager for Maoming Yongye (Group) Co. Ltd., whose shares are listed on the Shenzhen Stock Exchange and previously worked as assistant to general manager for China Materials Investment Corporation in the PRC.

Mr. Wu Chun Wah, Michael

Aged 41, is an executive director of the Group. Mr. Wu joined the Group in February 2003. Mr. Wu graduated from Northeast Louisiana University and holds a master degree in business administration. Mr. Wu also obtained a diploma of China trade and investment from Beijing University, a diploma of China laws from Guangdong Economic Laws Research Centre and a postgraduate diploma in management from Asia International Open University. Prior to joining the Group, he has worked for several international financial institutions including BNP Paribas Peregrine Capital Limited, CCIC Finance Limited and American Express Bank Limited. Mr. Wu has extensive experience in financial investment and corporate finance. He is a fellow member of the Hong Kong Institute of Directors.

Mr. Li Tiefeng

Aged 35, is an executive director of the Group. Mr. Li joined the Group in October 2001. Mr. Li graduated from the Renmin University of China in 1995 and holds a master degree in economics. He is well experienced in financial investment and corporate management.

Mr. Hong Shuikun

Aged 50, is a non-executive director of the Group. Mr. Hong joined the Group in February 2003. Mr. Hong graduated from Shanghai Fudan University in journalism in 1978. He also obtained post-graduate qualifications from Central Party School of China in economics in 2002. Mr. Hong is a reputable expert in the logistics industry of Mainland China and he has many years of experience in management of large logistics enterprises. Mr. Hong was a general manager of China National Storage and Transportation Corporation and the chairman of Zhongchu Development Stock Company Limited, which is a company listed on the Shanghai Stock Exchange in the PRC. Mr. Hong is currently the President of China Chengtong Holdings Company, the ultimate controlling shareholder of the Company.

Ms. Xu Zhen

Aged 41, is a non-executive director of the Group. Ms. Xu joined the Group in March 2005. Ms. Xu graduated from Dongbei University of Finance and Economics in the PRC with a bachelor degree in economics and a master degree in accounting studies. Ms. Xu previously worked for China Materials Investment Corporation as deputy general manager and is currently the chief accountant of China Chengtong Holdings Company, the ultimate controlling shareholder of the Company. Ms. Xu currently is also a director of Create Technology & Science Company Limited whose shares are listed on the Shenzhen Stock Exchange.

Mr. Gu Laiyun

Aged 42, is a non-executive director of the Group. Mr. Gu joined the Group in February 2003. Mr. Gu graduated from Dongbei University of Finance and Economics in 1985 and holds both a bachelor degree in economics and master of science degree from Jilin University. Mr. Gu has extensive experience in corporate management and he is the assistant to president of China Chengtong Holdings Company, the ultimate controlling shareholder of the Company.

Mr. Chen Shengjie

Aged 44, is a non-executive director of the Group. Mr. Chen joined the Group in February 2003. Mr. Chen graduated from Beijing Finance and Trade College in 1983 and holds a bachelor degree in science. He is a registered accountant of China Registered Accountant Academy and he previously worked for the State Administration of Audit.

Mr. Tsui Yiu Wa, Alec

Aged 56, is an independent non-executive director of the Group. Mr. Tsui joined the Group in March 2003. He is the Chief Executive of WAG Financial Services Group Limited and Vice-chairman of China Mergers and Acquisitions Association. Mr. Tsui was the Chairman of the Hong Kong Securities Institute from 2001 to 2004, and the Chief Operating Officer of Hong Kong Exchanges and Clearing Limited in 2000. He is an independent non-executive director of a number of listed companies in Hong Kong, including Industrial and Commercial Bank of China (Asia) Limited, Vertex Communications & Technology Group Limited, China Power International Development Limited, COSCO International Holdings Limited and Synergies Holdings Limited. He is also a director of Hong Kong Securities Institute, Hong Kong Professional Consultants Association Limited, AIG Huatai Fund Management Company Limited and Harbour Networks Holdings Limited. Mr. Tsui graduated from the University of Tennessee, United States with a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering. He completed a Program for Senior Managers in Government at the John F.Kennedy School of Government of Harvard University. He has numerous years of experience in finance and administration, corporate and strategic planning, information technology as well as human resources management.

Mr. Kwong Che Keung, Gordon

Aged 56, has been an independent non-executive Director of the Company since March 2003. Mr. Kwong has also been serving as a member of the remuneration committee of the Company and the chairman of the audit committee of the Company since March 2003. He is also an independent non-executive director of a number of companies listed on the Stock Exchange, namely COSCO International Holdings Limited, Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, Concepta Investments Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China, Limited, Quam Limited, Tom Online Inc., China Power International Development Limited, New World Mobile Holdings Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. From 1984 to 1998, Mr. Kwong was a partner of Pricewaterhouse and was a council member of the Stock Exchange from 1992-1997. He has a Bachelor of Social Science degree from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales.

Mr. Lao Youan

Aged 41, is an independent non-executive director of the Group. Mr. Lao joined the Group in April 2002. Mr. Lao graduated from Sun Yat-sen University in 1985 and holds a bachelor degree in economics. He has many years of experience in the investment, trading and financial field in Hong Kong. He has held senior management positions in various large enterprises. He serves as financial controller of Guangdong Panyu Bridge Co., Ltd. and has extensive experienced in corporate management, project investment management and financial management.

SENIOR MANAGEMENT

Mr. Lai Ka Fai

Aged 35, is the Head of the Legal and Company Secretarial Department. He is a solicitor of the High Court of Hong Kong SAR and holds a bachelor of laws degree and a master degree in business administration. Mr. Lai joined the Group in January 2003.

Mr. Ma Chi Un, Fred

Aged 34, is the Financial Controller of the Group. He holds a bachelor degree in economics from the Wharton School of University of Pennsylvania in the United States. Mr. Ma has extensive experience in financial and investment industry both in the PRC and Hong Kong. Mr. Ma joined the Group in January 2003.

The Board of Directors of the Company (the "Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2005.

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. We commit ourselves to a high standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of the business of the Group.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") sets out the principles of good corporate governance (the "Principles") and two levels of corporate governance practices:

(a) code provisions (the "Code Provisions") which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) recommended best practices (the "Recommended Best Practices") for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with all the Code Provisions. It also put in place certain Recommended Best Practices as set out in the CG Code.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code, and acknowledges the important role of its Board in providing effective leadership and direction to the Company's business, and ensuring transparency and accountability of the Company's operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The Board provides leadership, approves policies, strategies and plans, and oversees their implementation to further the healthy growth of the Company, in the interests of its shareholders.

The Board takes responsibility for all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director, Executive Director and the senior management. The delegated functions and work tasks are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Managing Director, Executive Director and the senior management to discharge its responsibilities.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. During the year, the Board comprises ten members, consisting of three executive Directors, four non-executive Directors and three independent non-executive Directors.

The Board of the Company comprises the following Directors:

Executive Directors:

ZHANG Guotong	*(Vice-Chairman, Managing Director, member of Remuneration Committee and Nomination Committee)*
WANG Hongxin	
WU Chun Wah, Michael*	
LI Tiefeng*	

Non-executive Directors:

MA Zhengwu	*(Chairman, Chairman of Nomination Committee and member of Remuneration Committee)*
HONG Shuikun	*(member of Audit Committee)*
XU Zhen	*(member of Audit Committee)*
GU Laiyun	
CHEN Shengjie*	

Independent non-executive Directors:

KWONG Che Keung, Gordon	*(Chairman of Audit Committee, member of Remuneration Committee and member of Nomination Committee)*
TSUI Yiu Wa, Alec	*(Chairman of Remuneration Committee, member of Audit Committee and member of Nomination Committee)*
LAO Youan	*(member of Audit Committee, member of Remuneration Committee and member of Nomination Committee)*

* Mr. Wu Chun Wah, Michael and Mr. Li Tiefeng resigned from the office as Executive Directors on 10 February 2006 and 29 March 2005 respectively. Mr. Chen Shengjie resigned from the office of Non-executive Director on 29 March 2005.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

During the year ended 31 December 2005, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive Directors make various contributions to the effective direction of the Company.

Appointment and Succession Planning of Directors

The Company has established a Nomination Committee and formal, considered and transparent procedures for the appointment and succession planning of Directors.

In accordance with the Company's Articles of Association, one third of the Directors are subject to retirement by rotation every year and any new Director appointed to fill a causal vacancy or as an addition to the Board shall be eligible for re-election by shareholders at the first general meeting after appointment.

Code Provision A.4.1 of Appendix 14 to the Listing Rules requires that non-executive directors should be appointed for a specific term and should be subject to re-election. With respect to Code Provision A.4.1, the non-executive directors of the Company have not been appointed for any specific terms since they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Memorandum and Articles of Association of the Company. As such, the Company considers that sufficient measures have been taken to serve the purpose of this Code Provision.

The Board and Nomination Committee as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the candidates proposed by the Nomination Committee, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Articles of Association, Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Lao Youan shall retire by rotation and being eligible, offer themselves for re-election at the Annual General Meeting ("AGM") of the Company to be held on 23 June 2006.

The Board recommended the re-appointment of the Directors standing for re-election at the forthcoming annual general meeting of the Company.

The Company's circular in relation to the forthcoming annual general meeting contains detailed information of the Directors standing for re-election.

Training for Directors

There were two Directors newly appointed during the year ended 31 December 2005, including Mr. Wang Hongxin, an executive director and Mr. Xu Zhen, a non-executive director. In case there is any newly appointed Director, he/she will be provided an induction so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and the relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2005, five Board meetings were held and four of which were regular Board meetings.

The individual attendance record of each Director at the meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 December 2005 is set out below:

	Attendance/Number of Meetings		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
MA Zhengwu	5/5	Not applicable	–/–
ZHANG Guotong	5/5	Not applicable	–/–
WANG Hongxin	5/5	Not applicable	Not applicable
WU Chun Wah, Michael*	5/5	Not applicable	Not applicable
HONG Shuikun	5/5	2/2	Not applicable
XU Zhen	5/5	2/2	Not applicable
GU Laiyun	4/5	Not applicable	Not applicable
KWONG Che Keung, Gordon	5/5	2/2	–/–
TSUI Yiu Wa, Ales	5/5	2/2	–/–
LAO Youan	4/5	2/2	–/–
LI Tiefeng*	Not applicable	Not applicable	Not applicable
CHEN Shengjie*	Not applicable	Not applicable	Not applicable

* Mr. Wu Chun Wah, Michael and Mr. Li Tiefeng resigned from the office as Executive Directors on 10 February 2006 and 29 March 2005 respectively. Mr. Chen Shengjie resigned from the office of Non-executive Director on 29 March 2005. During the period from 1 January 2005 to 29 March 2005, one meetings of the Board was held. And no meeting of Remuneration Committee was held for the year ended 31 December 2005, however, a meeting of Remuneration Committee was held on 21 March 2006.

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The Company Secretary of the Company is responsible for keeping minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND MANAGING DIRECTOR

The Company fully supports the division of responsibility between the Chairman of the Board and the Managing Director to ensure a balance of power and authority. The positions of the Chairman and Managing Director are held by Mr. MA Zhengwu and Mr. ZHANG Guotong respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the company practices and procedures, business objectives, and risk assessment for the Board's approval.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees kept in the Company and are available to shareholders upon request. The majority of the members of each Board committees are independent non-executive Directors and the list of the Chairman and members of each Board committee is set out in this report on page 12.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the members of the Board and the senior management and other related matters. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Managing Director of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee did not meet during the year ended 31 December 2005 and the Board reviewed the existing remuneration policy and structure of the Company and remuneration packages of the Directors and the senior management. The Remuneration Committee subsequently met on 21 March 2006.

Audit Committee

The Audit Committee comprises three independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and two Non-executive Directors. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer, internal auditor or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2005 to review the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2005 have been reviewed by the Audit Committee.

NOMINATION COMMITTEE

The Company has established a Nomination Committee and was chaired by the Chairman of the Board, members of the Nomination Committee including the managing director and all of the three Independent Non-executive Directors. Nomination Committee responsible for nominating potential candidates for directorship appointment and succession, regular review on the composition and structure of the Board and making appropriate recommendation to the Board in order to ensure the balance of expertise, skills and experience among the members of the Board. Nomination will be made reference to the skill, experience, professional knowledge, personal integrity and time commitment.

MODEL CODE FOR SECURITIES TRANSACTIONS

In the year ended 31 December 2005, the Company has adopted its own code of conduct regarding Directors' securities transactions (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the requirements of the Code of Conduct and the Model Code throughout the year ended 31 December 2005.

The Company also has established written guidelines on no less exacting than the Model Code (the "Written Guidelines") for securities transactions by the employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2005.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Auditors' Report on page 26.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2005 amounted to HK$1,280,000 and HK$283,000 respectively. An analysis of the remuneration paid to the external auditors of the Company is set out below:

	Amount of Fee Payable/Paid (HK$'000)
Audit Services	1,280
Review on interim results	242
Other non-audit services	41
Total	1,563

INTERNAL CONTROLS

The Board has full responsibility for the Group's internal control system, which includes the establishment of a defined management structure with specified limited of authority. The system is designed to help the achievement of business objectives of the Group, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and ensure compliance with relevant legislation and regulation. The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. In 2005, the management of the Company reported an incident of a short term loan made without the prior approval of the Board.

The key procedures that the Board established to provide a more effective internal controls are as follows:

– Organizational Structure

  An appropriate organizational structure is in place with defined operating policies and procedures as well as responsibility and lines of authority.

– Authority and Control

  The Executive Directors and senior management are delegated with respective levels of authorities to carry out the corporate strategies and policies and the related matters formulated by the Board.

– Budgetary Control and Financial Reporting

  The Group implements budget management, and financial budget is executed upon approval by the Board. Relevant procedures have been established to assess, review and approve major capital and recurrent expenditures, and regular review and comparison between operating results and the budget are made.

  The Group has established appropriate internal control procedures to ensure the keeping of accurate and complete accounting and management records on a timely basis. Examination and review are carried out regularly to ensure that the financial statements are properly prepared in conformity with the generally a accepted accounting principles, the Group's accounting policies and the applicable laws and regulations.

– Internal Auditing

The Group has regularly conducted internal audit to review whether the internal control procedures are implemented appropriately.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Poll results will be published in newspapers on the business day following the shareholders' meeting. The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meetings. Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors.

To promote effective communication, the Company also maintains a website at *http://www.hk217.com*, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

The directors present their report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 16 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 27.

PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND PROPERTIES UNDER DEVELOPMENT FOR FUTURE SALE

Details of movements in property, plant and equipment, investment properties and properties under development for future sale during the year are set out in notes 14, 15 and 19 to the financial statements respectively.

SHARE CAPITAL

Details of share capital of the Company are set out in note 32 to the financial statements.

During the year, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

DISTRIBUTABLE RESERVES

As at 31 December 2005 and 31 December 2004, the Company had no distributable reserves, calculated in accordance with Section 79B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the five largest customers represented 43.81% of the Group's total turnover. Sales to the largest customer included therein amounted to 35.73%.

During the year, the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the five largest suppliers represented 45.86% of the Group's total purchases. Purchases from the largest supplier amounted to 37.75% of the Group's total purchases.

None of the directors of the Company or any of their associates or any shareholders, which to the best knowledge of the Company's directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or suppliers for the year ended 31 December 2005.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Mr. ZHANG Guotong	*(Executive Director, Vice Chairman and Managing Director)*
Mr. WANG Hongxin	*(Executive Director, appointed on 29 March 2005)*
Mr. WU Chun Wah, Michael	*(Executive Director, resigned on 10 February 2006)*
Mr. LI Tiefeng	*(Executive Director, resigned on 29 March 2005)*
Mr. MA Zhengwu	*(Non-executive Director, Chairman)*
Mr. HONG Shuikun	*(Non-executive Director)*
Ms. XU Zhen	*(Non-executive Director, appointed on 29 March 2005)*
Mr. GU Laiyun	*(Non-executive Director)*
Mr. CHEN Shengjie	*(Non-executive Director, resigned on 29 March 2005)*
Mr. KWONG Che Keung, Gordon	*(Independent non-executive Director)*
Mr. TSUI Yiu Wa, Alec	*(Independent non-executive Director)*
Mr. LAO Youan	*(Independent non-executive Director)*

In accordance with Article 105 of the Company's Articles of Association, Messrs. Kwong Che Keung, Gordon, Tsui Yiu Wa, Alec and Lao Youan to be retired by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each non-executive director is the year up to his retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

	Date of grant	Exercisable period	Exercise price HK$	Number of shares At 1 January 2005	Granted during the year	Lapsed during the year	At 31 December 2005	Aggregate long position in underlying shares to issued share capital of the Company %
Directors								
Ma Zhengwu	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	–	1,200,000	0.07
Zhang Gutong	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	–	1,200,000	0.25
	28.9.2004	29.9.2005 to 28.9.2008	0.245	3,000,000	–	–	3,000,000	
Li Tiefeng (resigned on 29 March 2005)	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	(1,200,000)	–	
Wu Chun Wah, Michael (resigned on 10 February 2006)	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	–	1,200,000	0.25
	28.9.2004	29.9.2005 to 28.9.2008	0.245	3,000,000	–	–	3,000,000	
Hong Shuikun	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	–	1,200,000	0.07
Chen Shengjie (resigned on 29 March 2005)	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	(1,200,000)	–	–
Gu Laiyun	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	–	1,200,000	0.19
	28.9.2004	29.9.2005 to 28.9.2008	0.245	2,000,000	–	–	2,000,000	
Xu Zhen (appointed on 29 March 2005)	8.3.2004	9.3.2005 to 8.3.2009	0.364	600,000	–	–	600,000	0.04
				17,000,000	–	(2,400,000)	14,600,000	
Other employees								
In aggregate	8.3.2004	9.3.2005 to 8.3.2009	0.364	14,000,000	–	(1,750,000)	12,250,000	
	28.9.2004	29.9.2005 to 28.9.2008	0.245	24,050,000	–	(1,000,000)	23,050,000	
				38,050,000	–	(2,750,000)	35,300,000	2.09
Total				55,050,000	–	(5,150,000)	49,900,000	

All the interests stated above represent long positions. As at 31 December 2005, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under Section 352 of Part XV of the SFO.

Save as disclosed above, as at 31 December 2005, none of the Directors or Chief Executives of the Company nor their spouses or children under 18 years of age were granted, or had exercised, any rights to subscribe for any equity or debt securities of the Company or any of its Associated Corporations.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Other than the share option disclosed above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the Register of Interests and Short Positions in Shares and Underlying Shares maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the shares and underlying shares of the Company:

Name of shareholder	Capacity	Number of shares	Percentage of issued share capital of the Company
World Gain Holdings Limited	Controlled corporation *(note)*	608,201,500	36%
China Chengtong Hong Kong Company Limited	Controlled corporation *(note)*	608,201,500	36%
China Chengtong Holdings Company	Beneficial owner	608,201,500	36%

Note: The entire issued share capital of World Gain Holdings Limited is beneficially owned by China Chengtong Hong Kong Company Limited and the entire issued share capital of which is beneficially owned by China Chengtong Holdings Company.

All the interest stated above represent long position. As at 31 December 2005, no Short Positions were recorded in the Register of Interests and Short Positions in Shares and Underlying Shares required to be kept under Section 336 of the SFO.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2005.

DISCLOSURE PURSUANT TO THE LISTING RULES

As at 31 December 2005, the aggregate amount of advances made by the Group to its associates was approximately HK$161,080,000. Particulars of these advances are set out in note 23 to the financial statements.

The balance sheet of the associate, Goodwill (Overseas) Limited as at 31 December 2005 disclosed in accordance with 13.22 of Chapter 13 of the Listing Rules is as follows:

	HK$’000
Non-current assets	496,651
Current assets	23
Current liabilities	(573)
Net current liabilities	(550)
Non-current liabilities	
Shareholders’ loans	(499,505)
Net liabilities	(3,404)

CONNECTED TRANSACTION

On 24 August 2005, Zhongshi Investment Company Limited 中實投資有限責任公司, a 70% owned subsidiary of the Group made a short term loan (“Short Term Loan”) of RMB50 million (about HK$48.2 million) to Beijing Jinghuadu Real Estate Development Company Limited 北京京華都房地產開發有限公司 (“Jinghuadu”) at an interest rate of 8% per annum, repayable within two months from the date of borrowing. The principal of the Short Term Loan of RMB50 million with interest in the amount of RMB1,232,000 (about HK$1.2 million) were received on 15 November 2005.

Jinghuadu is an indirectly owned subsidiary of China Chengtong Holdings Company, which is, in turn, the ultimate holding company of the substantial shareholder (as defined in the Listing Rules) of the Company, World Gain Holdings Limited. Accordingly, the Short Term Loan constituted a connected transaction of the Company under the Listing Rules.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 23 and 25 to the financial statements.

FINANCIAL SUMMARY

A summary of the Group’s results and its assets and liabilities for the year ended 31 December 2005 and the past four financial years is set out on page 78.

AUDITORS

The financial statements of the Company for the year ended 31 December 2005 were audited by Messrs. Deloitte Touche Tohmatsu.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

MA ZHENGWU
CHAIRMAN

Beijing
21 April 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA CHENGTONG DEVELOPMENT GROUP LIMITED
中國誠通發展集團有限公司
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 27 to 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 April 2006

For the year ended 31 December 2005

	NOTES	**1.1.2005 to 31.12.2005** ***HK$'000***	1.4.2004 to 31.12.2004 *HK$'000* (Restated)
Turnover	*7*	**253,772**	210,992
Cost of sales		**(243,187)**	(209,732)
Gross profit		**10,585**	1,260
Other income		**7,429**	1,767
Distribution costs		**(6,585)**	(1,216)
Administrative expenses		**(27,856)**	(24,289)
Impairment loss on property, plant and equipment		**(23,781)**	(9,473)
Revaluation deficit recognised in respect of investment properties	*15*	**–**	(6,262)
Provision for a legal claim	*25*	**(8,698)**	(32,792)
Finance costs	*8*	**(1,407)**	(1,787)
Gain on disposal of subsidiaries		**–**	162,989
Share of results of associates		**(1)**	(261)
(Loss) profit before taxation		**(50,314)**	89,936
Taxation	*9*	**(3,371)**	4,205
(Loss) profit for the year/period	*10*	**(53,685)**	94,141
Attributable to:			
Shareholders of the Company		**(45,997)**	99,714
Minority interests		**(7,688)**	(5,573)
		(53,685)	94,141
(Loss) earnings per share	*12*		
Basic		**HK (2.73) cents**	HK 5.91 cents
Diluted		**N/A**	HK 5.90 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	14	**55,650**	77,022
Investment properties	15	**86,400**	84,870
Interests in associates	17	**263**	264
Amounts due from an associate	17	**–**	174,832
		142,313	336,988
Current assets			
Inventories	18	**4,536**	9,114
Properties held for sales		**230,162**	–
Properties under development for future sale	19	**–**	170,135
Trade and other receivables	20	**31,784**	18,991
Bills receivables		**144**	839
Tax recoverable		**2,414**	–
Amount due from a minority shareholder	21	**1,359**	1,337
Amounts due from related companies	22	**5,282**	5,020
Bank balances and cash		**115,058**	86,082
		390,739	291,518
Assets classified as held for sale	23	**161,080**	–
		551,819	291,518
Current liabilities			
Trade and other payables	24	**128,391**	99,794
Deposits received on sale of properties		**189,435**	19,156
Provision for a legal claim	25	**41,490**	32,792
Loan from a related company	26	**15,000**	15,000
Amount due to a minority shareholder	27	**3,978**	3,978
Taxation payable		**–**	6
Other loans	28	**7,196**	7,196
Bank loans, secured	29	**17,616**	17,304
		403,106	195,226
Net current assets		**148,713**	96,292
Total assets less current liabilities		**291,026**	433,280

At 31 December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (Restated)
Non-current liabilities			
Bank loans, secured – amount due after one year	29	**–**	94,300
Deferred taxation	30	**5,694**	6,599
		5,694	100,899
Net assets		**285,332**	332,381
Capital and reserves			
Share capital	32	**168,710**	168,710
Reserves		**84,356**	124,309
Equity attributable to shareholder		**253,066**	293,019
Minority interests		**32,266**	39,362
		285,332	332,381

The financial statements on pages 27 to 76 were approved and authorised for issue by the Board of Directors on 21 April 2006 and are signed on its behalf by:

Zhang Guotong	**Wang Hongxin**
DIRECTOR	*DIRECTOR*

BALANCE SHEET

At 31 December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	14	**61**	87
Interests in subsidiaries	16	**1**	1
Amount due from an associate of the Group	17	**–**	517
		62	605
Current assets			
Other receivables		**621**	1,056
Amounts due from subsidiaries	31	**260,548**	257,248
Bank balances and cash		**227**	107
		261,396	258,411
Assets classified as held for sale	23	**517**	–
		261,913	258,411
Current liabilities			
Other payables		**6,081**	6,500
Amounts due to subsidiaries	31	**81,739**	82,439
		87,820	88,939
Net current assets		**174,093**	169,472
		174,155	170,077
Capital and reserves			
Share capital	32	**168,710**	168,710
Reserves	34	**5,445**	1,367
		174,155	170,077

For the year ended 31 December 2005

	Attributable to shareholders of the Company									
	Share capital	Share premium	Capital redemption reserve	Exchange reserve	Legal surplus	Share options reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004										
– as previously stated	168,710	939,273	402	284	565	–	(920,014)	189,220	22,294	211,514
– effect of changes in accounting policies (note 3)	–	–	–	–	–	234	(234)	–	–	–
– as restated	168,710	939,273	402	284	565	234	(920,248)	189,220	22,294	211,514
Acquired on acquisition of a subsidiary	–	–	–	–	–	–	–	–	22,641	22,641
Profit and total recognised gain (loss) for the period	–	–	–	–	–	–	99,714	99,714	(5,573)	94,141
Recognition of equity-settled share based payments	–	–	–	–	–	4,085	–	4,085	–	4,085
At 31 December 2004 and 1 January 2005	168,710	939,273	402	284	565	4,319	(820,534)	293,019	39,362	332,381
Exchange realignment	–	–	–	1,652	–	–	–	1,652	592	2,244
Loss for the year	–	–	–	–	–	–	(45,997)	(45,997)	(7,688)	(53,685)
Total recognised gain (loss) for the year	–	–	–	1,652	–	–	(45,997)	(44,345)	(7,096)	(51,441)
Recognition of equity-settled share based payments	–	–	–	–	–	4,392	–	4,392	–	4,392
At 31 December 2005	168,710	939,273	402	1,936	565	8,711	(866,531)	253,066	32,266	285,332

The accumulated losses of the Group include the accumulated profits of approximately HK$249,000 (2004: HK$250,000) retained by associates of the Group.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000* (Restated)
Cash flows from operating activities		
(Loss) profit before taxation	**(50,314)**	89,936
Adjustments for:		
Interest income	**(1,882)**	(22)
Interest expense	**1,407**	1,787
Increase in provision for a legal claim	**8,698**	32,792
Gain on disposal of subsidiaries	**–**	(162,989)
Share of results of associates	**1**	261
Expenses recognised in respect of share options granted	**4,392**	4,085
Loss on disposal of property, plant and equipment	**1,009**	2,366
Depreciation of property, plant and equipment	**3,217**	4,541
Revaluation deficit recognised in respect of investment properties	**–**	6,262
Impairment loss recognised in respect of property, plant and equipment	**23,781**	9,473
Operating cash flows before working capital changes	**(9,691)**	(11,508)
Decrease in inventories	**4,578**	2,697
Increase in properties under development	**(6,888)**	(6,663)
Increase in trade and other receivables	**(12,793)**	(3,453)
Decrease in bills receivables	**695**	8,992
Increase in amount due from a minority interest	**(22)**	–
Decrease in trade and other payables	**(20,986)**	(18,822)
Increase in deposit received on sale of properties	**170,279**	19,156
Decrease in amount due to a minority interest	**–**	(3,799)
Cash flows from (used in) operations	**125,172**	(13,400)
Hong Kong Profits Tax paid	**(298)**	–
PRC Enterprise Income Tax paid	**(6,398)**	(765)
Net cash flow from (used in) operating activities	**118,476**	(14,165)

For the year ended 31 December 2005

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000* (Restated)
Cash flows from investing activities		
Purchase and disposal of subsidiaries (net of cash and cash equivalents acquired for/disposed of)	**–**	71,830
(Advance to) repayment from amount due from related companies	**(262)**	3,980
Proceeds from disposals of property, plant and equipment	**2,551**	35
Purchases of property, plant and equipment	**(7,830)**	(20,289)
Repayment of amount due from associates	**13,752**	22,388
Interest received	**2,502**	265
Net cash from investing activities	**10,713**	78,209
Cash flows from financing activities		
Bank loan raised	**–**	28,290
Repayment of bank loans	**(94,300)**	(1,178)
Repayment of other loans	**–**	(28,529)
Interest paid	**(5,583)**	(5,300)
Net cash used in financing activities	**(99,883)**	(6,717)
Net increase in cash and cash equivalents	**29,306**	57,327
Cash and cash equivalent at beginning of year/period	**86,082**	28,755
Effect of foreign exchange rate changes	**(330)**	–
Cash and cash equivalents at end of year/period, representing bank balances and cash	**115,058**	86,082

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company are disclosed in the Corporate Information to the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 16.

The financial statements are presented in Hong Kong dollars which is also the functional currency of the Company.

During the prior period, the Company changed its financial year end date from 31 March to 31 December and the consolidated financial statements incorporate the financial statements of the Company and its subsidiaries which cover nine months period ended 31 December 2004. For current year, the consolidated financial statements incorporated the financial statements of the Company and its subsidiaries cover twelve months period up to 31 December 2005. The corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes cover a nine month period from 1 April 2004 to 31 December 2004 and therefore may not be comparable with amounts shown for the current year.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRS(s)") issued by Hong Kong Institute of Certified Public Accountants that are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented.

Share-based payments

In the current year, the Group has applied HKFRS 2, Share-based Payment, which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated (see note 3 for the financial impact).

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD/CHANGES IN ACCOUNTING POLICIES (continued)

Financial instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with the requirements of HKAS 39. The classification depends on the purpose for which the assets are acquired. The Group's financial assets are loans and receivables which are measured at amortised cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". The Group's financial liabilities are "other financial liabilities" which are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has no impact on the Group's accumulated losses on 1 January 2005 and results for the current year.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 Investment Property. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. It has no impact on the Group's accumulated losses on 1 January 2005 and the results for the current year.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD/CHANGES IN ACCOUNTING POLICIES (continued)

Deferred tax related to investment properties

In previous period, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HKAS Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. It has no impact on the results for current and prior accounting year/period as the Group's intention is to recover the property through sale.

3. SUMMARY OF THE EFFECTS OF ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD CHANGES IN ACCOUNTING POLICIES

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

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Expenses recognised in relation to share options granted		
– Increase in administrative expenses	**(4,392)**	(4,085)

3. SUMMARY OF THE EFFECTS OF ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD CHANGES IN ACCOUNTING POLICIES (continued)

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	31.12.2004 *HK$'000* (Originally stated)	Adjustment *HK$'000*	31.12.2004 and 1.1.2005 *HK$'000* (Restated)
Accumulated losses	(816,215)	(4,319)	(820,534)
Share options reserve	–	4,319	4,319
Minority interests	–	39,362	39,362
Total effects on equity	(816,215)	39,362	(776,853)
Minority interests	39,362	(39,362)	–
	(776,853)	–	(776,853)

The financial effects of the application of the new HKFRSs to the Group's equity at 1 April 2004 are summarised below:

	As originally stated *HK$'000*	Adjustment *HK$'000*	As restated *HK$'000*
Accumulated losses	(920,014)	(234)	(920,248)
Share options reserve	–	234	234
Minority interests	–	22,294	22,294
Total effects on equity	(920,014)	22,294	(897,720)

3. SUMMARY OF THE EFFECTS OF ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARD CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not early applied the new standards, interpretations and amendments that have been issued but are not yet effective as at 31 December 2005.

HKAS 1 (Amendment)	Capital disclosure [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HKFRS – INT 4	Determining whether an arrangement contains a lease [2]
HKFRS – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in change in the future as to how the results and financial position are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, except for investment properties which are stated at fair values.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants. In additions, the financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange and the Companies Ordinance.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired and disposed of during the year/period are included in the consolidated income statement from and up to their effective dates of acquisition and disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the nominal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has been passed.

Service income is recognised when services are rendered.

Revenue from sale of properties in the ordinary course of business (including revenue from pre-completion contracts for the sale of development properties) is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposit received from the purchasers prior to the above criteria are recorded as deposit received on sale of properties and included in current liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the term of the leases.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and identified impairment losses.

Construction in progress is not depreciated until completion of construction and the asset is ready for its intended use.

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight line method, at the following rates per annum:

Buildings	1.67% to 3.60%
Plant and machinery	5% to 20%
Furniture and equipment	10% to 20%
Motor vehicles	20%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations). Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Properties under development for future sale/Properties held for sales

Properties under development for future sale/properties held for sales are stated at lower of cost and net realisable value. Cost comprises the cost of the land together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of cost of those assets. Capitalisation of such borrowing costs ceased when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity in which cases, the exchange differences is recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee, others are operating leases.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are mainly classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, bank balances and cash, amounts due from a minority interest/associates/related companies) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits which are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, loan from an intermediate controlling shareholder, amount due to a minority shareholder, other loans, bank loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Retirement benefits costs

Payments to the defined contribution retirement benefits schemes are charged as expenses as they fall due.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent balance sheet date, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation (if appropriate).

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following judgments that have the most significant effect on the amounts recognised in the financial statements.

Impairment of property, plant and equipment

Determining whether property, plant and equipment is impaired requires an estimation of the recoverable amounts of the assets. The recoverable amounts requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. During the year, an impairment loss of HK$23,781,000 (1.4.2004 to 31.12.2004: HK$9,473,000) was recognised.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, bank balance and cash, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group's cash flow interest rate risk primarily relates to fixed-rate bank loans.

The Group currently does not have any risk hedging policy. However, the management monitors interest rate risk exposure and will consider hedging significant risk exposure should the used arises.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Concentration risk

The Group is exposed to concentration risk as a significant portion of its business are derived from its largest customer.

7. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances.

Business Segments

The Group's principal activities are trade and manufacture of cement, trade of goods, property investment, property development and investments holding. These five business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

	Trade and manufacture of cement	**Trade of goods**	**Property investment**	**Property development**	**Investments holding**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2005						
Turnover						
Segment turnover	46,458	93,261	–	114,053	–	253,772
Result						
Segment result	(30,069)	7	(10,286)	8,219	–	(32,129)
Unallocated corporate expenses						(16,777)
Finance costs						(1,407)
Share of results of associates					(1)	(1)
Loss before taxation						(50,314)
Taxation						(3,371)
Loss for the year						(53,685)
Other information						
Additions of property, plant and equipment	7,731	–	–	97	2	7,830
Impairment loss on property, plant and equipment	(23,781)	–	–	–	–	(23,781)
Depreciation and amortisation of property, plant and equipment	(2,854)	–	–	(90)	(273)	(3,217)
Loss on disposal of property, plant and equipment	(986)	–	–	(23)	–	(1,009)
Provision for a legal claim	–	–	(8,698)	–	–	(8,698)

7. TURNOVER AND SEGMENT INFORMATION (continued)

Business Segments (continued)

	Trade and manufacture of cement HK$'000	Trade of goods HK$'000	Property investment HK$'000	Property development HK$'000	Investments holding HK$'000	Consolidated HK$'000
As at 31 December 2005						
Balance sheet						
Assets						
Segment assets	62,260	601	84,870	332,453	213,948	694,132
Consolidated total assets						694,132
Liabilities						
Segment liabilities	(30,605)	(8)	(48,968)	(251,893)	(6,374)	(337,848)
Unallocated corporate liabilities						(70,952)
Consolidated total liabilities						(408,800)
For the period from 1 April 2004 to 31 December 2004						
Turnover						
Segment turnover	81,518	129,438	36	–	–	210,992
Result						
Segment result	(15,879)	45	(32,876)	(303)	(23)	(49,036)
Unallocated corporate expenses						(21,969)
Finance costs						(1,787)
Gain on disposal of subsidiaries			162,989			162,989
Share of results of associates					(261)	(261)
Profit before taxation						89,936
Taxation						4,205
Profit for the period						94,141
Other information						
Additions of property, plant and equipment	20,113	–	–	12	164	20,289
Impairment loss on property, plant and equipment	(9,473)	–	–	–	–	(9,473)
Depreciation and amortisation of property, plant and equipment	(4,283)	–	–	(24)	(234)	(4,541)
Allowance made for inventories	(2,931)	–	–	–	–	(2,931)
(Loss) gain on disposal of property, plant and equipment	(2,368)	–	–	2	–	(2,366)
Revaluation deficit recognised in respect of investment properties	–	–	(6,262)	–	–	(6,262)
Provision for a legal claim	–	–	(32,792)	–	–	(32,792)

7. TURNOVER AND SEGMENT INFORMATION (continued)

Business Segments (continued)

	Trade and manufacture of cement HK$'000	Trade of goods HK$'000	Property investment HK$'000	Property development HK$'000	Investments holding HK$'000	Consolidated HK$'000
As at 31 December 2004						
Balance sheet						
Assets						
Segment assets	92,531	638	84,870	216,041	234,426	628,506
Consolidated total assets						628,506
Liabilities						
Segment liabilities	30,527	6	39,403	52,709	6,793	129,438
Unallocated corporate liabilities						166,687
Consolidated total liabilities						296,125

Geographical Segments

The Group's operations are located in Mainland China and Hong Kong of the People's Republic of China (the "PRC"). The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market	
	1.1.2005 to 31.12.2005 ***HK$'000***	1.4.2004 to 31.12.2004 *HK$'000*
Mainland China	**160,511**	81,554
Hong Kong	**93,261**	129,438
	253,772	210,992

7. TURNOVER AND SEGMENT INFORMATION (continued)

Geographical Segments (continued)

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical areas in which the assets are located:

	2005	2004
	HK$'000	*HK$'000*
Carrying amount of segment assets		
Mainland China	**479,583**	393,442
Hong Kong	**214,549**	235,064
	694,132	628,506

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Additions to property, plant and equipment		
Mainland China	**7,828**	20,125
Hong Kong	**2**	164
	7,830	20,289

8. FINANCE COSTS

	THE GROUP	
	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**5,583**	5,300
Less: Amount capitalised in the cost of properties held for sales	**(4,176)**	(3,513)
	1,407	1,787

9. TAXATION

Hong Kong Profits Tax is provided at 17.5% (1.4.2004 to 31.12.2004: 17.5%) on the estimated assessable profits for the year/period. PRC Enterprise Income Tax is provided at range from 24% to 33% (1.4.2004 to 31.12.2004: 24%) on the estimated assessable profits for the year/period.

Pursuant to the relevant laws and regulations in the PRC, the Group's certain PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

	THE GROUP	
	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
The taxation charge comprises:		
Current tax:		
Hong Kong	**–**	6
PRC	**3,334**	–
	3,334	6
Under(over)provision in prior years:		
Hong Kong	**297**	(570)
PRC	**645**	–
	942	(570)
	4,276	(564)
Deferred taxation (note 30)	**(905)**	(3,641)
Taxation charge (credit) for the year/period	**3,371**	(4,205)

9. TAXATION (continued)

A statement of reconciliation of taxation is as follows:

	1.1.2005 to 31.12.2005 HK$'000	1.4.2004 to 31.12.2004 HK$'000
(Loss) profit before taxation	**(50,314)**	89,936
Effective tax at the PRC Enterprise Income Tax rate of 24% (1.4.2004 to 31.12.2004: 24%)	**(12,076)**	21,585
Tax effect of share of results of associates	**–**	63
Tax effect of expenses not deductible for tax purposes	**7,979**	5,966
Tax effect of income not taxable for tax purposes	**(444)**	(39,815)
Tax effect of tax losses not recognised	**5,690**	8,580
Tax effect on utilisation of tax losses previously not recognised	**–**	(9)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,280**	(3)
Under(over)provision in prior year	**942**	(570)
Others	**–**	(2)
Taxation charge (credit) for the year/period	**3,371**	(4,205)

10. (LOSS) PROFIT FOR THE YEAR/PERIOD

	THE GROUP	
	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
The (loss) profit for the year/period is arrived at after charging:		
Auditors' remuneration		
Current year/period provision	**1,550**	1,020
Prior period (over)underprovision	**(120)**	54
	1,430	1,074
Depreciation of property, plant and equipment	**3,217**	4,533
Impairment loss on property, plant and equipment	**23,781**	9,473
Loss on disposal of property, plant and equipment	**1,009**	2,366
Minimum lease payments in respect of rented premises	**1,610**	1,995
Allowance made for inventories	**–**	2,931
Contributions to retirement benefits schemes (including directors' emoluments)	**1,558**	1,315
Other staff costs (including directors' emoluments)	**13,771**	14,822
Cost of inventories recognised as an expense	**236,760**	206,776
after crediting:		
Gross rental income from investment properties, net of negligible outgoings	**1,009**	684
Interest income excluding of interest income on the temporary investment of specific borrowings of approximately HK$620,000 (1.4.2004 to 31.12.2004: HK$243,000) which has been capitalised in properties under development	**1,882**	22
Exchange gain	**1,530**	–

Other than interest income capitalised as stated above, the above amounts are shown net of expenses capitalised in properties under development as follows:

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Other staff costs	**3,319**	701
Depreciation of property, plant and equipment	**90**	8
Operating lease rentals for land and building	**654**	95

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 11 (2004: 11) directors were as follows:

The other 1 director (2004: 1 director) has no emoluments for the year.

	Zhang Guotong *HK'000*	**Wu Chun Wah** *HK$'000*	**Wang Hongxin** *HK$'000*	**Xu Zhen** *HK$'000*	**Ma Zhengwu** *HK$'000*	**Gu Laiyun** *HK$'000*	**Hong Shui Kun** *HK$'000*	**Chen Shengjie** *HK$'000*	**Kwong Che Keung** *HK$'000*	**Tsui Yiu Wa** *HK$'000*	**Lao Youan** *HK$'000*	**Total 1.1.2005 to 31.12.2005** *HK$'000*
Fee	1,018	1,610	465	182	240	240	240	60	360	360	180	4,955
Contributions to retirement benefit schemes	51	80	–	–	–	–	–	–	–	–	–	131
Share-based payment	402	402	–	22	43	282	43	–	–	–	–	1,194
Total emoluments	1,471	2,092	465	204	283	522	283	60	360	360	180	6,280

	Zhang Guotong *HK'000*	Wu Chun Wah *HK$'000*	Xu Zhen *HK$'000*	Li Tie Feng *HK$'000*	Ma Zhengwu *HK$'000*	Gu Laiyun *HK$'000*	Hong Shui Kun *HK$'000*	Chen Shengjie *HK$'000*	Kwong Che Keung *HK$'000*	Tsui Yiu Wa *HK$'000*	Lao Youan *HK$'000*	Total 1.4.2004 to 31.12.2004 *HK$'000*
Fee	454	1,000	–	260	164	164	164	164	270	270	135	3,045
Contributions to retirement benefit schemes	5	50	–	–	–	–	–	–	–	–	–	55
Share-based payment	266	266	73	146	146	226	146	146	–	–	–	1,415
Total emoluments	725	1,316	73	406	310	390	310	310	270	270	135	4,515

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (1.4.2004 to 31.12.2004: two) directors of the Company whose emoluments are included in note 11(a) above. The emoluments of the remaining three (1.4.2004 to 31.12.2004: three) individuals were as follows:

	THE GROUP	
	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Salaries and other benefits	**1,557**	2,646
Contributions to retirement benefits schemes	**78**	55
	1,635	2,701

Emoluments of the highest paid individuals were within the following bands:

	THE GROUP	
	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	Number of employees	Number of employees
Nil to HK$1,000,000	**3**	3

12. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	THE GROUP	
	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000* (restated)
(Loss) profit for the year and earnings for the purposes of basic and diluted earnings per share	**(45,997)**	99,714
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,687,104,968**	1,687,104,968
Effect of dilutive potential ordinary shares in respect of share options	**N/A**	1,976,336
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**N/A**	1,689,081,304

No diluted loss per share has been presented for the year ended 31 December 2005 because the exercise of share options will be anti-dilutive.

Impact of the adoption of new and revised accounting policies

The Group's adoption of new and revised accounting policies during the year are described in detail in Note 2. To the extent that those changes have had an impact on results reported for 2005 and 2004, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on both basic and diluted earnings per share:

	Impact on basic (loss) earnings per share		Impact on diluted earnings per share	
	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004	**1.1.2005 to 31.12.2005**	1.4.2004 to 31.12.2004
	HK cents	HK cents	**HK cents**	HK cents
Figures before adjustments	**(2.47)**	6.15	**N/A**	6.15
Adjustment arising from the adoption of new and revised accounting policies	**(0.26)**	(0.24)	**N/A**	(0.25)
As reported/restated	**(2.73)**	5.91	**N/A**	5.90

13. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the ORSO Scheme) and a Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. All employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were required to switch to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute 29% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

For the year ended 31 December 2005, contributions totalling of approximately HK$1,558,000 (1.4.2004 to 31.12.2004: HK$1,315,000) were paid by the Group.

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 April 2004	80,418	81,431	15,530	7,455	2,944	187,778
Additions	2,747	42	211	–	17,289	20,289
Acquired on acquisition of subsidiaries	–	–	60	304	–	364
Transfer	–	160	–	–	(160)	–
Disposals	(1,072)	(3,113)	(688)	(1,865)	–	(6,738)
Disposal of subsidiaries	(3,937)	–	(1,810)	(1,592)	–	(7,339)
At 31 December 2004	78,156	78,520	13,303	4,302	20,073	194,354
Currency realignment	1,266	1,416	12	61	362	3,117
Additions	3,023	434	111	–	4,262	7,830
Transfer	14,237	10,460	–	–	(24,697)	–
Disposals	(9,303)	(640)	(26)	(782)	–	(10,751)
At 31 December 2005	87,379	90,190	13,400	3,581	–	194,550
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 April 2004	31,050	60,474	13,711	6,222	–	111,457
Provided for the period	1,906	2,050	306	279	–	4,541
Eliminated on disposals	(483)	(1,729)	(607)	(1,518)	–	(4,337)
Impairment loss recognised in income statements	6,273	3,192	–	8	–	9,473
Disposal of subsidiaries	(518)	–	(1,692)	(1,592)	–	(3,802)
At 31 December 2004	38,228	63,987	11,718	3,399	–	117,332
Currency realignment	546	1,162	10	43	–	1,761
Provided for the year	1,359	1,211	196	451	–	3,217
Eliminated on disposals	(5,881)	(581)	(4)	(725)	–	(7,191)
Impairment loss recognised in income statements	9,166	14,615	–	–	–	23,781
At 31 December 2005	43,418	80,394	11,920	3,168	–	138,900
NET BOOK VALUES						
At 31 December 2005	43,961	9,796	1,480	413	–	55,650
At 31 December 2004	39,928	14,533	1,585	903	20,073	77,022

14. PROPERTY, PLANT AND EQUIPMENT (continued)

THE GROUP (continued)

The directors of the Company have met the county government of Wen Ting County, Suzhou, the PRC and obtained written notice for the usage right of a piece of land located at Wen Ting County. However, the State Land Bureau has yet to give its approval to the Group's title to this piece of land, held through a 71% subsidiary (with the remaining 29% held by a PRC joint venture partner), on which buildings with net book value of HK$43,961,000 (2004: HK$39,928,000) have been erected. It is the responsibility of the PRC joint venture partner to ensure that the appropriate land use right certificate is obtained and they have confirmed to the Group that they are in the process of obtaining the land use right certificate from the State Land Bureau.

Certain plant and machinery with an aggregate net book value of HK$9,378,000 (1.4.2004 to 31.12.2004: HK$14,115,000) have been pledged as securities for the Group's bank loans.

During the year/period, the directors conducted a review of the Group's certain manufacturing assets and determined that a number of those assets were fully impaired, due to physical damage and technical obsolescence. Accordingly, full impairment losses of approximately HK$9,166,000 (1.4.2004 to 31.12.2004: HK$6,273,000) and HK$14,615,000 (1.4.2004 to 31.12.2004: HK$3,192,000) and Nil (1.4.2004 to 31.12.2004: HK$8,000) respectively have been recognised in respect of buildings, plant and machinery and motor vehicles.

THE COMPANY

	Furniture and equipment *HK$'000*
COST	
At 1 April 2004, 1 January 2005 and 31 December 2005	353
ACCUMULATED DEPRECIATION	
At 1 April 2004	246
Provided for the year	20
At 31 December 2004	266
Provided for the year	26
At 31 December 2005	292
NET BOOK VALUE	
At 31 December 2005	61
At 31 December 2004	87

15. INVESTMENT PROPERTIES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
FAIR VALUE		
At beginning of year/period	**84,870**	194,796
Disposal of subsidiaries	**–**	(103,664)
Revaluation deficit	**–**	(6,262)
Exchange gain on revaluation of investment properties	**1,530**	–
At end of year/period	**86,400**	84,870
Analysed by lease term and geographical location:		
Medium term leasehold properties situated in the Mainland China	**86,400**	84,870

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by S.H. Ng & Co., Ltd., independent qualified professional valuers not connected with the Group. S.H. Ng & Co., Ltd. are members of the Hong Kong Institute of Surveyor, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at the balance sheet date, the Group had outstanding litigations in relation to the ownership of the Group's investment properties. For details of the litigations, please refer to note 25 to the financial statements.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1,001**	1,001
Less: Impairment loss	**(1,000)**	(1,000)
	1	1

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration	Total paid-up and issued ordinary share/ registered capital	Equity interest owned by the Group %	Principal activities
Directly held:				
Galactic Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Investment holding
Merry World Associates Limited	British Virgin Islands (the "BVI")	1 ordinary share of US$1 each	100	Property investment
Indirectly held:				
Boxhill Limited	BVI	1 ordinary share of US$1 each	100	Investment holding
Chengtong Hua Da Trading Limited	Hong Kong	100 ordinary shares of HK$1 each	51	Trading
Come Ward Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100	Trading
Evolve Limited	Hong Kong	500 ordinary shares of HK$10 each	100	Property investment
Chengtong Trading (International) Limited	Hong Kong	429 ordinary shares of HK$1 each	100	Trading
Price Sales Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100	Investment holding
Sea-Land Mining Limited	Hong Kong	1,000,000 ordinary shares of HK$10 each	100	Investment holding
蘇州南達水泥有限公司* Suzhou Nanda Cement Company Limited	PRC	RMB101,262,000	71.03	Trade and manufacture of cement
中實投資有限責任公司* Zhongshi Investment Company Limited	PRC	RMB80,000,000	70	Properties development

* The subsidiary was established in the PRC as a sino-foreign equity joint venture enterprise.

16. INTERESTS IN SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the period/year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at 31 December 2005 or at any time during the year/period.

17. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM AN ASSOCIATE

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**263**	264
Amounts due from associates	–	175,918
Less: Allowance for doubtful receivables	–	(1,086)
	–	174,832

The amount due from an associate is unsecured, interest-free and have no fixed terms for repayment.

Particulars of the Group's associates at the balance sheet date are as follows:

Name of company	Class of shares held	Place of incorporation	Equity interest owned by the Group %	Principal activity
Goodwill (Overseas) Limited ("Goodwill")	Ordinary	BVI	32	Investment holding
Success Project Investments Ltd. ("Success Project")	Ordinary	BVI	35	Investment holding

During the year, the Group's interests in Goodwill have been classified as held for sale (note 23).

As at 31 December 2004, the Company had an amount due from an associate of the Group of approximately HK$517,000 which was interest-free and has no fixed terms of repayment.

17. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM AN ASSOCIATE (continued)

Summarised financial information in respect of the Group's associates is set out below:

	2005	2004
	HK$'000	*HK$'000*
Total assets	**751**	540,322
Total liabilities	**–**	(542,974)
Net assets (liabilities)	**751**	(2,652)
Group's share of associates' net assets	**263**	264

	2005	2004
	HK$'000	*HK$'000*
Revenue	**–**	–
Loss for the year	**2**	744
Group's share of loss of associates for the year (net of tax)	**1**	261

18. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**3,540**	6,040
Work in progress	**–**	683
Finished goods	**996**	5,322
	4,536	12,045
Less: Allowance made	**–**	(2,931)
	4,536	9,114

As at the balance sheet dates, the inventories were carried at cost.

19. PROPERTIES UNDER DEVELOPMENT FOR FUTURE SALE

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
At beginning of year/period	**170,135**	–
Acquisition of subsidiaries	**–**	128,173
Additions	**60,027**	41,962
	230,162	170,135
Transfer to properties held for sales	**(230,162)**	–
	–	170,135

The cost of properties under development situated in the PRC are held under long leases.

During the year, net interest capitalised amounted to HK$3,556,000 (1.4.2004 to 31.12.2004: HK$3,270,000). At 31 December 2004, properties under development amounting to HK$33,929,000 have been pledged as securities for the Group's bank loans.

At 31 December 2004, properties under development related to a site for residential development project comprising villas nos. 9 and 11 at Baiwanzhuang Dajie, Xicheng District, Beijing, the PRC with a site area of about 7,200 sq.m.

20. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Trade receivables	**11,758**	7,713
Prepayments and deposits	**2,259**	1,992
Other receivables	**17,767**	9,286
	31,784	18,991

20. TRADE AND OTHER RECEIVABLES (continued)

Trade receivables

The Group allows an average credit period of 30 days to its trade customers on open account credit terms. The ageing analysis of the trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Current	**8,510**	1,443
One to three months	**128**	796
Over three months	**3,120**	5,474
	11,758	7,713

The directors consider that the fair value of trade and other receivables at the balance sheet dates approximate the carrying amounts.

21. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The amount due from a minority interest is unsecured, interest-free and repayable on demand. The directors considered that the fair value at the balance sheet date approximates to the carrying amount.

22. AMOUNTS DUE FROM RELATED COMPANIES

	THE GROUP		Maximum amount outstanding during the year
	2005	2004	
	HK$'000	*HK$'000*	*HK$'000*
Name of related companies			
中國物資開發投資總公司	**4,621**	4,621	4,621
北京京華都房地產開發有限公司	**–**	–	49,383
China Chengtong Hong Kong Company Limited	**100**	–	100
Nardu Company Limited	**125**	27	125
Panyu Lucky Rich Real-Estates Development Limited	**430**	372	430
Tat Yeung Investments Limited	**6**	–	6
	5,282	5,020	54,665

22. AMOUNTS DUE FROM RELATED COMPANIES

The amounts are unsecured, interest-free and repayable on demand. 中國物資開發投資總公司 is a subsidiary of China Chengtong Holdings Company, a holding company of a substantial shareholder of the Company. 北京京華都房地產開發有限公司 is an indirectly owned subsidiary of China Chengtong Holdings Company, which is, in turn, the ultimate holding company of the substantial shareholder (as defined in the Listing Rules) of the Company, World Gain Holdings Limited. Nardu Company Limited, Panyu Lucky Rich Real-Estates Development Limited and Tat Yeung Investments Limited are subsidiaries of China Chengtong Hong Kong Company Limited, a substantial shareholder of the Company. The directors consider that the fair value at the balance sheet date approximates to the carrying amount.

23. ASSETS CLASSIFIED AS HELD FOR SALE

	2005
	HK$'000
Share of net assets	–
Amount due from an associate	**162,166**
Less: Allowance for doubtful receivables	**(1,086)**
	161,080
	161,080

During the year, the directors decided to dispose of the interest in an associate, Goodwill, and on 11 January 2006, the Group entered into an agreement (the "Disposal Agreement") with an independent third party (the "Purchaser") to dispose of a wholly owned subsidiary of the Company, Price Sales Limited which holds the 32% equity interest of Goodwill and the related loan advanced by the Group to Goodwill at a consideration of US$24,701,754 (equivalent to HK$192,674,000).

As at 31 December 2005, the Company had an amount due from Goodwill of HK$517,000 which will also be disposed of under the Disposal Agreement.

The directors consider that the fair value of assets classified as held for sale at the balance sheet dates approximate the carrying amounts.

The Disposal Agreement is conditional upon the following:

(1) the passing at the EGM of a resolution of the shareholders of the Company approving the Disposal in accordance with the terms of the Disposal Agreement pursuant to the requirements of the Listing Rules.

(2) the other shareholders of Goodwill (or their beneficial owners) shall enter into an agreement with the Purchaser (or its nominated wholly owned subsidiary) for the sale of their interest in Goodwill in form satisfactory to the Purchaser before Completion.

(3) satisfactory due diligence review by the Purchaser.

Details of the Disposal Agreement are set out in the Company's announcement dated 7 February 2006.

24. TRADE AND OTHER PAYABLES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Trade payables	**78,702**	52,462
Deposits received, other payables and accruals	**49,689**	47,332
	128,391	99,794

The ageing analysis of the trade payables at the balance sheet date is as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Current	**717**	6,056
One to three months	**9,788**	14,377
Over three months	**68,197**	32,029
	78,702	52,462

The directors consider that the fair value of trade and other payables at the balance sheet dates approximate the carrying amounts.

25. PROVISION FOR A LEGAL CLAIM

	THE GROUP
	HK$'000
Balance at 1 January 2005	32,792
Provide for the year	8,698
Balance at 31 December 2005	41,490

Petitions have been filed against a wholly owned subsidiary of the Company, Merry World Associates Limited ("Merry World") seeking orders, among other matters, for the transfer of the Group's two investment properties with carry value of HK$41,490,000 (the "Property A") and HK$ 44,910,000 (the "Property C"), respectively, as at 31 December 2005 in favour of the plaintiff (the "Plaintiff").

Property A and Property C were acquired by Merry World from the Plaintiff in 2001 when Merry World was not part of the Group. Merry World is the registered owner of Property A and Property C in the PRC. The Plaintiff alleged among other matters, that Merry World had failed to make payments for the purchase of the Property A and Property C.

25. PROVISION FOR A LEGAL CLAIM (continued)

Judgments of The Intermediate People's court of Guangzhou City were made on 13 July 2005 and 16 September 2005 ordering, inter alias, the transfer of the Property A and Property C to the Plaintiff. The directors, after consulting with the Group's legal counsel, have made appeal to the Higher People's court of Guangzhou City.

Merry World has on 1 March 2006 entered into two settlement agreements (the "Settlement Agreements") with the Plaintiff in relation to Property A and Property C for, among other matters, the transfer of Property A by Merry World to the Plaintiff in pursuant to the judgment and the discontinuance and withdrawal by the Plaintiff of all its claims made and legal proceedings instituted against Merry World in relation to Property C and the confirmation of the title of Merry World in Property C.

Having obtained the advice of the Group's legal counsel, the directors are of the opinion that provision is adequate as at the balance sheet dates with reference to the carrying values of the properties and the likelihood of the outcome of the claim.

Details of the Settlement Agreements are set out in the Company's announcement dated 31 March 2006.

26. LOAN FROM A RELATED COMPANY

The amount represents loan from a holding company of a substantial shareholder and is unsecured and interest-free. The repayment date of the loan was originally scheduled on 9 January 2005 and it was extended to 9 January 2006. The directors considered that the fair value at the balance sheet date approximates to the carrying amount.

27. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to a minority interest is unsecured, interest-free and is repayable on demand. The directors consider that the fair value at the balance sheet date approximates to the carrying amount.

28. OTHER LOANS

The other loans from third parties are unsecured, repayable on demand and interest-free, except for a loan of HK$3,600,000 (2004: HK$3,600,000) which is interest bearing at 0.05% per day on a compound basis. The directors considered that the fair value at the balance sheet date approximates to the carrying amount.

29. BANK LOANS, SECURED

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**17,616**	17,304
After one year but within two years	**–**	94,300
	17,616	111,604
Less: Amount due within one year included in the current liabilities	**(17,616)**	(17,304)
Amount due after one year	**–**	94,300

The interests of the Group's bank loans are carried at fixed rate of 7.56% (2004: ranged from 5.49% to 7.56%) per annum.

For details of the securities to the bank loans, please refer to notes 14 and 19 to the financial statements.

30. DEFERRED TAXATION

THE GROUP

The following are the major deferred tax liabilities accrued and movement thereon during both years:

	Revaluation of properties	
	2005	2004
	HK$'000	*HK$'000*
At beginning of year/period	**6,599**	10,240
Credit to income for the year/period	**(905)**	(3,641)
At end of year/period	**5,694**	6,599

The Group has deductible temporary differences not recognised in the financial statements are as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Tax losses	**(220,216)**	(196,507)
Impairment losses and allowance made on assets	**(76,678)**	(54,338)
	(296,894)	(250,845)

No deferred tax asset has been recognised due to unpredictability of future profit streams. At 31 December 2005, included in unrecognized tax losses are losses of approximately HK$24,553,000 (2004: HK$16,923,000) which will expire in 2010. Other tax losses may be carried forward indefinitely.

30. DEFERRED TAXATION (continued)

THE COMPANY

At 31 December 2005, the Company has unused tax losses of HK$77,237,000 (2004: HK$61,575,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profits streams. The tax losses may be carried forward indefinitely.

31. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand. The directors considered that the fair value at the balance sheet date approximates to the carrying amount.

32. SHARE CAPITAL

	2005		2004	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
At 1 April 2004, 31 December 2004 and 31 December 2005	**5,000,000**	**500,000**	5,000,000	500,000
Issued and fully paid:				
At 1 April 2004, 31 December 2004 and 31 December 2005	**1,687,105**	**168,710**	1,687,105	168,710

33. SHARE OPTIONS SCHEMES

The Company adopted a share option scheme at an extraordinary general meeting of the Company held on 24 June 2003 (the "Scheme"), the Directors may, at their discretion, invite any participants to take up options to subscribe for fully paid ordinary shares ("Shares") in the Company subject to the terms and conditions stipulated therein.

Details of the Scheme are as follows:

(i) Purpose

The purpose of the Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any invested entity.

33. SHARE OPTIONS SCHEMES (continued)

(ii) Participants

The Directors may, at their discretion, invite any participant including any executive director, non-executive director or employee (whether full time or part time), shareholder, supplier, customer, consultant, adviser, other service provider or any joint venture partner, business or strategic alliance partner, in each case, of the Company, any subsidiary of the Company or any invested entity, to take up options to subscribe for Shares in the Company.

(iii) Maximum number of shares

(1) 30% limit

The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the Shares in issue from time to time (the "Scheme Limit").

(2) 10% limit

In addition to the Scheme Limit, and subject to the following, the total number of shares which may be issued upon exercise of all options granted under the Scheme must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the Scheme (excluding any options which have lapsed) (the "Scheme Mandate Limit").

The Company may, from time to time, renew the Scheme Mandate Limit by obtaining the approval of its shareholders in general meeting. The Company may also seek separate approval by its shareholders in general meeting for granting options beyond the renewed Scheme Mandate Limit provided the options in excess of such limit are granted only to participants specifically identified.

(iv) Maximum entitlement of each participant

Unless approved by shareholders of the Company, the total number of securities issued and to be issued upon exercise on the options granted to each participant (including both exercised and outstanding options) in any 12 month period must not exceed 1% of the Shares in issue. Where any further grant of options to a participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

(v) Price of shares

The exercise price must be at least the higher of: (a) the nominal value of a Share at the date of grant; (b) the closing price of a Shares as stated on the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

33. SHARE OPTIONS SCHEMES (continued)

(vi) Amount payable upon acceptance of the option

Acceptance of an offer of the grant of an option shall be by the delivery to and receipt by the Company at its registered office of the form of acceptance sent to the Participant duly completed and signed by the Participant together with a remittance of HK$1.

(vii) Exercisable periods

An option shall be exercisable at such time(s) or during such period(s) and subject to such terms, as the Directors may, at their discretion specify, provided that 50% of the option shall be exercisable with a period of three (3) years commencing from twelve (12) months after the date of acceptance of the offer and the balance 50% may be exercisable at any time with a period of three (3) years commencing from twenty-four (24) months after the date of acceptance of the offer.

(viii) Vesting periods

(1) The options granted on 8.3.2004 have vesting period as follows:
50% of the options are vested in 12 months from the date of acceptance of the offer and the balance 50% of the options are vested in 24 months from the date of acceptance of the offer.

(2) The options granted on 28.9.2004 have vesting period as follows:
100% of the options are vested in 12 months from the date of acceptance of the offer.

(ix) The remaining life of the Scheme

The life of the Schemes is 10 years commencing on the Adoption Date and will end on 23 June 2013.

(x) Shares available for issue under the Scheme

As at 31 December 2005, the total number of shares available for issue under the Scheme was approximately 118,810,500 shares which represented approximately 7% of the total issued share capital of the Company.

33. SHARE OPTIONS SCHEMES (continued)

The movements in the number of options outstanding during the period/year which have been granted to the directors of the Company and employees of the Group under the Scheme were as follows:

	Exercisable period	Exercise price HK$	Outstanding at 1.4.2004	Granted during the period	Lapsed during the period	Outstanding at 1.1.2005	Granted during the year	Lapsed during the year	Outstanding at 31.12.2005	Number of underlying shares
Directors	9.3.2005 to 8.3.2009	0.364	9,000,000	–	–	9,000,000	–	(2,400,000)	6,600,000	6,600,000
	29.9.2005 to 28.9.2008	0.245	–	8,000,000	–	8,000,000	–	–	8,000,000	8,000,000
Other employees	9.3.2005 to 8.3.2009	0.364	16,150,000	–	(2,150,000)	14,000,000	–	(1,750,000)	12,250,000	12,250,000
	29.9.2005 to 28.9.2008	0.245	–	24,050,000	–	24,050,000	–	(1,000,000)	23,050,000	23,050,000
Total			25,150,000	32,050,000	(2,150,000)	55,050,000	–	(5,150,000)	49,900,000	49,900,000

The fair values of options granted in 2004 were calculated using the Black-Scholes pricing model which is considered by the Directors to be the best pricing model currently available for estimating the fair values of these options. The inputs into the model were as follows:

Fair value of option at date of grant	HK$0.161
Share price at date of grant	HK$0.290
Exercise price	HK$0.245
Expected volatility	78%
Expected life in years	3
Risk free rate	1.5%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

The Group recognised total expenses of HK$4,392,000 (1.4.2004 to 31.12.2004: HK$4,085,000) related to equity-settled share-based payment transactions during the year.

34. RESERVES

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on page 31.

THE COMPANY

	Share premium	Capital redemption reserve	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004					
– as previously stated	939,273	402	–	(1,025,222)	(85,547)
– effect of changes in accounting policies (note 3)	–	–	234	(234)	–
– as restated	939,273	402	234	(1,025,456)	(85,547)
Recognition of equity-settled share based payments	–	–	4,085	–	4,085
Profit for the period	–	–	–	82,829	82,829
At 31 December 2004 and 1 January 2005	939,273	402	4,319	(942,627)	1,367
Recognition of equity-settled share based payments	–	–	4,392	–	4,392
Net loss for the year	–	–	–	(314)	(314)
At 31 December 2005	939,273	402	8,711	(942,941)	5,445

35. FAIR VALUE OF OTHER FINANCIAL ASSETS

The carrying amounts of cash and cash equivalents and bills receivables, approximate their respective fair values due to the relatively short term maturity of these financial instruments. The fair values of other classes of financial assets and financial liabilities are disclosed in the respective notes to financial statements.

36. COMMITMENTS

(a) Capital commitments

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Capital commitments in respect of properties under development:		
Contracted but not provided for	–	98,016
Authorised but not contracted for	–	72,018
	–	170,034
Capital commitments in respect of acquisition of property, plant and equipment:		
Contracted but not provided for	–	6,688

At the balance sheet date, the Company did not have any capital commitments.

(b) Operating lease commitments as leasee

At 31 December 2005, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**1,655**	2,342
In the second to fifth years inclusive	–	2,103
	1,655	4,445

Leases are negotiated for an average term of three years.

At the balance sheet date, the Company had no commitments under non-cancellable operating leases in respect of rented premises.

36. COMMITMENTS (continued)

(c) Operating leases commitments as lessor

At 31 December 2005, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**1,105**	913
In the second to fifth years inclusive	**768**	913
More than five years	**864**	–
	2,737	1,826

Leases are negotiated for an average term of three years.

At the balance sheet date, the Company had not entered into any operating lease arrangement for rental income.

37. RELATED PARTY TRANSACTIONS

During the year/period, the Group received consultancy fee income of HK$Nil (1.4.2004 to 31.12.2004: HK$515,000) from an associate and interest income of HK$1,183,000 (1.4.2004 to 31.12.2004: nil) from a related company.

Balance with related parties at respective balance sheet dates are set out in the consolidated balance sheet/ balance sheet and notes thereto.

For the year ended 31 December 2005

A. INVESTMENT PROPERTIES

Location	Group's effective interest	Approximate gross floor area (sq. m.)	Usage	Category of lease
Li Wan Plaza, Zones A & C, Level 3, 9 Dexing Lu, Liwan District, Guangzhou City, Guangdong, PRC	100%	10,858	Commercial	Medium term lease

B. PROPERTIES HELD FOR SALES

Location	Group's effective interest	Approximate site area (sq. m.)	Usage	Category of lease
City of Mergence, Nos. 9 & 11, Baiwanzhuang Dajie, Xicheng District, Beijing, PRC	70%	7,200	Residential	Long lease

A summary of the published results and of the assets and liabilities of the Group for the year ended 31 December 2005 and the last four financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below:

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004	Year ended 31 March 2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)	(restated)		
RESULTS					
Turnover	**253,772**	210,992	175,050	108,382	207,322
(Loss) profit attributable to shareholders of the Company	**(45,997)**	99,714	44,158	93,079	(1,395,038)

	As at 31 December **2005**	2004	As at 31 March 2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Properties, plant and equipment	**55,650**	77,022	76,321	76,413	80,627
Investment properties	**86,400**	84,870	194,796	146,568	230,521
Intangible assets	**–**	–	–	79,460	–
Interests in associates	**263**	264	525	–	–
Amount due from associates	**–**	174,832	197,220	193,488	197,967
Current assets	**551,819**	291,518	64,811	52,182	46,548
Total assets	**694,132**	628,506	533,673	548,111	555,663
Current liabilities	**(403,106)**	(195,226)	(147,876)	(205,603)	(275,800)
Loans from minority interests	**–**	–	(100,807)	(100,807)	(112,932)
Bank loans – amount due after one year	**–**	(94,300)	–	–	–
Other loans – amount due after one year	**–**	–	(63,236)	(63,236)	(51,111)
Deferred tax liabilities	**(5,694)**	(6,599)	(10,240)	–	–
Total liabilities	**(408,800)**	(296,125)	(322,159)	(369,646)	(439,843)