



# CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 217)

## Interim Report 2006



**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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**SHARE REGISTRARS &  
TRANSFER OFFICE**

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**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

# Deloitte.

## 德勤

### **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA CHENGTONG DEVELOPMENT GROUP LIMITED**

#### **Introduction**

We have been instructed by the directors of the Company to review the interim financial report set out on pages 3 to 24.

#### **Directors' responsibilities**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **Review work performed**

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

#### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

11 September 2006

**CONDENSED CONSOLIDATED INCOME STATEMENT***for the six months ended 30 June 2006*

		<b>Six months ended</b>	
		<b>30 June</b>	
	<i>Notes</i>	<b>2006</b>	2005
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Continuing operations			
Turnover	3	<b>247,739</b>	29,980
Cost of sales		<b>(190,389)</b>	(33,222)
		<hr/>	<hr/>
Gross profit (loss)		<b>57,350</b>	(3,242)
Other income		<b>2,469</b>	1,341
Distribution costs		<b>(6,751)</b>	(462)
Administrative expenses		<b>(9,071)</b>	(12,991)
Provision for legal claims	4	-	(52,078)
Share of result of associates		-	(1)
Finance costs	5	<b>(737)</b>	(13)
		<hr/>	<hr/>
Profit (loss) before taxation	6	<b>43,260</b>	(67,446)
Taxation (charge) credit	7	<b>(16,096)</b>	4,385
		<hr/>	<hr/>
Profit (loss) for the period from continuing operations		<b>27,164</b>	(63,061)
Discontinued operations			
(Loss) profit for the period from discontinued operations	9	<b>(3)</b>	5
		<hr/>	<hr/>
Profit (loss) for the period		<b>27,161</b>	(63,056)
		<hr/>	<hr/>
Attributable to:			
Shareholders of the Company		<b>17,270</b>	(61,913)
Minority interests		<b>9,891</b>	(1,143)
		<hr/>	<hr/>
		<b>27,161</b>	(63,056)
		<hr/>	<hr/>
Earnings (loss) per share	10		
From continuing and discontinued operations:			
Basic		<b>HK1.0 cent</b>	HK(3.7) cents
		<hr/>	<hr/>
Diluted		<b>HK1.0 cent</b>	N/A
		<hr/>	<hr/>
From continuing operations:			
Basic		<b>HK1.0 cent</b>	HK(3.7) cents
		<hr/>	<hr/>
Diluted		<b>HK1.0 cent</b>	N/A
		<hr/>	<hr/>

**CONDENSED CONSOLIDATED BALANCE SHEET**

at 30 June 2006

	Notes	<b>30.6.2006</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2005 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	<b>54,762</b>	55,650
Investment properties	11	<b>44,910</b>	86,400
Interests in jointly controlled entity	12	<b>74,594</b>	–
Interests in associates		<b>263</b>	263
		<b>174,529</b>	142,313
<b>Current assets</b>			
Inventories		<b>6,873</b>	4,536
Properties held for sales		<b>54,968</b>	230,162
Trade and other receivables	13	<b>15,981</b>	31,784
Bills receivables		<b>1,182</b>	144
Tax recoverable		<b>284</b>	2,414
Amounts due from minority interests		<b>2,799</b>	1,359
Amounts due from related companies	14	<b>5,324</b>	5,282
Amount due from a jointly controlled entity		<b>16,320</b>	–
Restricted bank balance	15	<b>4,200</b>	–
Bank balances and cash		<b>101,247</b>	115,058
		<b>209,178</b>	390,739
Assets classified as held for sale	16	<b>152,344</b>	161,080
		<b>361,522</b>	551,819
<b>Current liabilities</b>			
Trade and other payables	17	<b>138,757</b>	128,391
Deposits received on sale of properties		<b>3,318</b>	189,435
Provision for legal claims	4	–	41,490
Loan from a related company	18	<b>33,033</b>	15,000
Amount due to a minority shareholder		<b>3,978</b>	3,978
Taxation payable		<b>14,421</b>	–
Other loans		<b>7,196</b>	7,196
Bank loans, secured		<b>17,616</b>	17,616
		<b>218,319</b>	403,106

**CONDENSED CONSOLIDATED BALANCE SHEET** *(Continued)**at 30 June 2006*

<i>Notes</i>	<b>30.6.2006</b> <b>HK\$'000</b> <b>(Unaudited)</b>	31.12.2005 <i>HK\$'000</i> <i>(Audited)</i>
Net current assets	<u>143,203</u>	<u>148,713</u>
Total assets less current liabilities	<b>317,732</b>	291,026
Non-current liabilities		
Deferred tax liabilities	<u>(5,239)</u>	<u>(5,694)</u>
Net assets	<u><b>312,493</b></u>	<u>285,332</u>
Capital and reserves		
Share capital	<b>168,710</b>	168,710
Reserves	<u><b>101,626</b></u>	<u>84,356</u>
Equity attributable to shareholders of the Company	<b>270,336</b>	253,066
Minority interests	<u><b>42,157</b></u>	<u>32,266</u>
Total equity	<u><b>312,493</b></u>	<u>285,332</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***for the six months ended 30 June 2006*

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Special capital reserve (note)	Exchange reserve	Legal surplus	Share options reserve	Accumulated (losses) profit	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	HK\$'000
At 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 and 1 January 2006	168,710	939,273	402	-	1,936	565	8,711	(866,531)	253,066	32,266	285,332
Capital Reduction (note)	-	(939,273)	-	965	-	-	-	938,308	-	-	-
Share option forfeited	-	-	-	-	-	-	(818)	818	-	-	-
Profit and total income recognised for the period	-	-	-	-	-	-	-	17,270	17,270	9,891	27,161
At 30 June 2006	168,710	-	402	965	1,936	565	7,893	89,865	270,336	42,157	312,493
At 1 January 2005	168,710	939,273	402	-	284	565	4,319	(820,534)	293,019	39,362	332,381
Recognition of equity-settled share based payments	-	-	-	-	-	-	3,160	-	3,160	-	3,160
Loss and total expenses recognised for the period	-	-	-	-	-	-	-	(61,913)	(61,913)	(1,143)	(63,056)
At 30 June 2005	168,710	939,273	402	-	284	565	7,479	(882,447)	234,266	38,219	272,485

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(Continued)*

*for the six months ended 30 June 2006*

*Note:*

On 20 June 2006, the High Court of the Hong Kong Special Administrative Region (the "High Court") made an order (the "Order") confirming the cancellation of the entire sum standing to the credit of the share premium account of the Company as at 31 December 2004 and set off with the accumulated losses of the Company as at 31 December 2004 (the "Capital Reduction"). The Order stipulated that after the Capital Reduction becoming effective, the Company will create a Special Capital Reserve in the amount of approximately HK\$965,000 representing the amount by which the Capital Reduction exceeds the total accumulated losses of the Company as at 31 December 2004 and that for so long as there remained any debt of or claim against the Company outstanding at the date when the Capital Reduction became effective which, if such date were the date of commencement of the winding up of the Company, would have been admissible in proof against the Company and the persons entitled to the benefit thereof had not have agreed otherwise, such reserve:

- (i) should not be treated as realised profits for the purposes of Section 79B of the Companies Ordinance;
- (ii) should, for so long as the Company remained a listed company, be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance or any statutory re-enactment or modification thereof.

It was also provided in the Order that, notwithstanding the above undertaking, (a) the Special Capital Reserve might be applied for the same purposes as a share premium account might be applied; (b) the amount standing to the credit of the Special Capital Reserve might be reduced by the aggregate of any increase in the paid up share capital or the amount standing to the credit of the share premium account of the Company resulting from the payment up of shares by the receipt of new consideration or upon a capitalisation of distributable reserve after the Capital Reduction becoming effective; and (c) in the event that the amount of the Special Capital Reserve is so reduced, the Company shall be at liberty to transfer the amount of any such reduction to the general reserves of the Company and the same shall become available for distribution.



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***for the six months ended 30 June 2006*

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash generated from operating activities	<b>12,024</b>	41,578
Net cash (used in) generated from investing activities:		
Capital contribution to a jointly controlled entity	<b>(48,000)</b>	–
Increase in restricted bank balance	<b>(4,200)</b>	–
Purchase of property, plant and equipment	<b>(219)</b>	(3,269)
Proceeds of disposal of property, plant and equipment	<b>552</b>	–
Repayment of amount due from an associate	<b>8,736</b>	8,764
Other investing activities	<b>–</b>	802
	<b>(43,131)</b>	6,297
Net cash generated from (used in) financing activities	<b>17,296</b>	(2,625)
Net (decrease) increase in cash and cash equivalents	<b>(13,811)</b>	45,250
Cash and cash equivalents at beginning of the period	<b>115,058</b>	86,082
Cash and cash equivalents at end of the period	<b>101,247</b>	131,332

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2006

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting".

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for investment properties, which are measured at fair value, as appropriate.

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

#### **Financial guarantee contracts**

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

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

#### ***The Group acts as the issuer of the financial guarantee contracts***

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

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Financial guarantee contracts** *(Continued)*

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

In relation to a financial guarantee granted to a bank in favour of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties, no financial guarantee contract was recognised as the fair values of these guarantees was insignificant.

### **Joint ventures**

#### ***Jointly controlled entities***

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities 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 jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), 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 jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

### 3. TURNOVER AND SEGMENT INFORMATION

#### Business segments

The Group's principal activities are trade and manufacture of cement, property investment and property development. These business segments are the basis on which the Group reports its primary segment information. During the period ended 30 June 2006, the Group discontinued its trade of goods business. Segments information about these business is presented as below:

	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Trade and manufacture of cement HK\$'000	Property investment HK\$'000	Property development HK\$'000	Trade of goods HK\$'000	
For the six months ended 30 June 2006					
Turnover	<u>16,738</u>	<u>-</u>	<u>231,001</u>	<u>-</u>	<u>247,739</u>
Result					
Segment result	<u>402</u>	<u>820</u>	<u>49,638</u>	<u>(3)</u>	<u>50,857</u>
Unallocated corporate expenses					<u>(6,863)</u>
Finance costs					<u>(737)</u>
Profit before taxation					<u>43,257</u>
Taxation charge					<u>(16,096)</u>
Profit for the period					<u>27,161</u>
	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Trade and manufacture of cement HK\$'000	Property investment HK\$'000	Property development HK\$'000	Trade of goods HK\$'000	
For the six months ended 30 June 2005					
Turnover	<u>29,980</u>	<u>-</u>	<u>-</u>	<u>78,962</u>	<u>108,942</u>
Result					
Segment result	<u>(4,559)</u>	<u>(32)</u>	<u>592</u>	<u>5</u>	<u>(3,994)</u>
Unallocated corporate expenses					<u>(11,355)</u>
Provision for legal claims	<u>-</u>	<u>(52,078)</u>	<u>-</u>	<u>-</u>	<u>(52,078)</u>
Share of results of associates					<u>(1)</u>
Finance costs					<u>(13)</u>
Loss before taxation					<u>(67,441)</u>
Taxation credit					<u>4,385</u>
Loss for the period					<u>(63,056)</u>

### 3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

#### 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:

	Continuing operations		Discontinued operations	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	-	-	-	78,962
Mainland China	<b>247,739</b>	29,980	-	-
	<b>247,739</b>	29,980	-	78,962

### 4. PROVISION FOR LEGAL CLAIMS

	<i>HK\$'000</i>
Balance at 1 January 2006	41,490
Utilisation of provision upon the transfer of Property A	<u>(41,490)</u>
Balance at 30 June 2006	<u>-</u>

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.

Judgments of The Intermediate People's Court of Guangzhou City were made on 13 July 2005 and 16 September 2005 ordering, inter alia, 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.

**4. PROVISION FOR LEGAL CLAIMS** *(Continued)*

On 1 March 2006, Merry World 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. During the period, the legal procedures for the transfer of Property A were completed.

**5. FINANCE COSTS**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest on bank borrowings wholly repayable within five years	<b>(737)</b>	(2,525)
Less: Amount capitalised in the cost of properties under development	<u>          -</u>	<u>          2,512</u>
	<b><u>(737)</u></b>	<b><u>(13)</u></b>

**6. PROFIT (LOSS) BEFORE TAXATION**

	<b>Continuing operations</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Profit (loss) before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>890</b>	2,300
and after crediting:		
Gain on disposal of property, plant and equipment	<b><u>335</u></b>	<u>243</u>

**7. TAXATION (CHARGE) CREDIT**

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<i>HK\$'000</i>
The (charge) credit comprises:		
Continuing operations		
Current tax		
Hong Kong	<b>284</b>	(292)
PRC	<b>(16,834)</b>	–
Deferred taxation	<b>454</b>	4,677
	<hr/>	<hr/>
Taxation (charge) credit for the period	<b>(16,096)</b>	4,385
	<hr/>	<hr/>

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for both periods. The tax credit (charge) represents the over (under) provision in previous years.

PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the Mainland China on the estimated assessable profits of the Group's PRC subsidiaries.

**8. SHARE OPTIONS**

The Company has a share option scheme for eligible directors and employees of the Group. Details of the share options outstanding during the current period are as follows:

	<b>Number of share options</b>
Outstanding at 1 January 2006	49,900,000
Lapsed during the period	4,700,000
	<hr/>
Outstanding at 30 June 2006	<b>45,200,000</b>
	<hr/>



## 9. DISCONTINUED OPERATIONS

The results of the discontinued operations are analysed as follows:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<i>HK\$'000</i>
(Loss) profit for the period in respect of trading of goods	<u><b>(3)</b></u>	<u>5</u>

The results of trade of goods business for the period, which have been included in the condensed consolidated income statements, were as follows:

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	-	78,962
Other income	-	3
Cost of sales and other operating expense	<u><b>(3)</b></u>	<u>(78,960)</u>
(Loss) profit for the period	<u><b>(3)</b></u>	<u>5</u>

The carrying amounts of the assets and liabilities of the trading business is insignificant.

**10. EARNINGS (LOSS) PER SHARE****From continuing and discontinued operations**

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

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<i>HK\$'000</i>
Earnings		
Earnings (loss) for the purposes of basic and diluted earnings per share	<b>17,270</b>	(61,913)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<b>1,687,104,968</b>	1,687,104,968
Effect of dilutive potential ordinary shares in respect of share options	<b>4,004,339</b>	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,691,109,307</b>	N/A

No diluted loss per share has been presented for the prior period as the exercise of the Company's outstanding share options would reduce loss per share.

**11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES**

During the period, the Group spent approximately HK\$219,000 (six months period ended 30 June 2005: HK\$3,269,000) on acquisitions of property, plant and equipment.

At 30 June 2006, the directors have considered the Group's investment properties are carried at fair values at the balance sheet date. No gains or losses arising from changes in the fair value has been recognised in profit or loss during the current period.

**12. INTEREST IN JOINTLY CONTROLLED ENTITY**

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Share of net assets	<b>69,700</b>	–
Goodwill on acquisition of jointly controlled entity	<b>4,894</b>	–
	<b>74,594</b>	–

The principal investment in jointly controlled entity at 30 June 2006 represents the Company's interest in 50% of registered capital of 湖州萬港聯合置業有限公司 (Huzhou Wangang United Estate Company Limited).

**13. TRADE AND OTHER RECEIVABLES**

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Trade receivables	<b>8,143</b>	11,758
Prepayments and deposits	<b>2,336</b>	2,259
Other receivables	<b>5,502</b>	17,767
	<b>15,981</b>	31,784

The Group allows an average credit period of 30 days (31 December 2005: 30 days) to its trade customers on open account credit terms. The aged analysis of the trade receivables at 30 June 2006 is as follows:

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Current	<b>703</b>	8,510
One to three months	<b>105</b>	128
Over three months	<b>7,335</b>	3,120
	<b>8,143</b>	11,758

**14. AMOUNTS DUE FROM RELATED COMPANIES**

<b>Name of related companies</b>	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
中國物資開發投資總公司	<b>4,621</b>	4,621
Nardu Company Limited	<b>167</b>	125
Panyu Lucky Rich Real-Estates Development Limited	<b>430</b>	430
Tat Yeung Investments Limited	<b>6</b>	6
China Chengtong Hong Kong Company Limited	<b>100</b>	100
	<hr/> <b>5,324</b> <hr/>	<hr/> 5,282 <hr/>

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 Group Limited (formerly known as China Chengtong Holdings Company prior to 20 July 2006), the ultimate controlling shareholder of the Company. Nardu Company Limited, Panyu Lucky Rich Real-Estates Development Limited and Tat Yeung Investments Limited are subsidiaries of China Chengtong Hong Kong Company Limited, the holding company of a substantial shareholder of the Company.

## 15. RESTRICTED BANK BALANCE

Pursuant to the order of the High Court of the Hong Kong Special Administrative Region dated 20 June 2006 confirming the Capital Reduction of the Company which became effective on 21 June 2006 (the “Effective Date”), a sum of HK\$4,200,000 (“Trust Fund”) was on 20 June 2006 deposited into a new and segregated bank deposit account designated “CCDG Capital Reduction Account” (“Trust Account”) in the name of Key Asset Limited (a wholly owned subsidiary of the Company) (“Trustee”) as trustee for the benefit of those creditors of the Company who have not given their consents to the Capital Reduction as at the Effective Date (“Non-consenting Creditors”). In relation to the said trust, it is undertaken by the Company and the Trustee that: (a) the Company will procure the Trustee to apply the Trust Fund for the sole and exclusive purpose of paying the Non-consenting Creditors in discharge, satisfaction or settlement of their projected claims on the Effective Date (“Pre-Capital Reduction Claims”); (b) in the event that any Non-consenting Creditor shall give its consent to the Capital Reduction subsequent to the Effective Date, the amount of the Trust Fund shall be reduced by the relevant Pre-Capital Reduction Claims from the said Non-consenting Creditor(s) and the Trustee shall be at liberty to transfer the amount of any such reduction(s) to the other bank accounts of the Company and the same shall become available for working capital or any other general uses of the Company; (c) the Trustee shall maintain to the credit of the Trust Account a cash balance of not less than the aggregate Pre-Capital Reduction Claims from the remaining Non-consenting Creditors outstanding at any time whilst the Trust Account remains operated; (d) the Company and the Trustee shall maintain the Trust Account for a period of six years from the Effective Date unless it is terminated earlier upon the happening of any of the following events, i.e., (aa) all the Pre-Capital Reduction Claims shall have been paid, satisfied, settled or otherwise extinguished; (bb) the remaining Non-consenting Creditors shall subsequently give their consents to the Capital Reduction; (cc) any period of limitation in respect of the remaining Pre-Capital Reduction Claims shall have expired; or (dd) such earlier date as the High Court shall direct upon application by the Company.

**16. ASSETS CLASSIFIED AS HELD FOR SALE**

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Share of net assets	—	—
Amount due from an associate	<b>153,430</b>	162,166
Less: Allowance for doubtful receivables	<b>(1,086)</b>	(1,086)
	<b>152,344</b>	161,080
	<b>152,344</b>	161,080

During the year ended 31 December 2005, the directors decided to dispose of the interest in an associate, Goodwill (Overseas) Limited (“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). Details of the Disposal Agreement are set out in the Company’s circular dated 9 May 2006.

**17. TRADE AND OTHER PAYABLES**

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Trade payables	<b>55,239</b>	78,702
Other deposits received, other payables and accruals	<b>83,518</b>	49,689
	<b>138,757</b>	128,391

The aged analysis of the trade payables at 30 June 2006 is as follows:

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Current	<b>4,621</b>	717
One to three months	<b>679</b>	9,788
Over three months	<b>49,939</b>	68,197
	<b>55,239</b>	78,702

**18. LOAN FROM A RELATED COMPANY**

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Non-interest bearing portion	<b>15,000</b>	15,000
Interest bearing portion	<b>18,033</b>	–
	<b><u>33,033</u></b>	<u>15,000</u>

The amount represents loan from a holding company of a substantial shareholder.

The non-interest bearing portion is unsecured and its repayment date was originally scheduled on 9 January 2006. The Group had repaid the loan on 31 August 2006.

The interest bearing portion is unsecured and bears interest rate of 3.5% per annum. Such loan and the related interest was fully settled on 31 August 2006.

**19. OPERATING LEASE COMMITMENTS****As lessee**

The Group had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Within one year	<b><u>1,081</u></b>	<u>1,655</u>

**As lessor**

The Group had contracted with tenants for the following future minimum lease payments in respect of the investment properties:

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Within one year	<b>648</b>	1,105
In the second to fifth year inclusive	<b>768</b>	768
More than 5 years	<b>768</b>	864
	<b><u>2,184</u></b>	<u>2,737</u>

**20. CAPITAL COMMITMENTS**

	<b>30.6.2006</b> <b>HK\$'000</b>	31.12.2005 <i>HK\$'000</i>
Capital commitments in respect of investment in jointly controlled entity:		
Contracted but not provided for	<b><u>22,758</u></b>	<u>–</u>

**21. POST BALANCE SHEET EVENT**

On 8 August 2006, the Company, the substantial shareholder of the Company (the "Substantial Shareholder") and an agent ("Placing Agent") entered into a placing and subscription agreement in relation to the placing of a total of 332,000,000 existing shares (the "Placing Shares") of the Company held by the Substantial Shareholder to the placees which represented approximately 19.68% of the total issued share capital of the Company (the "Placing") and the subscription by the Substantial Shareholder of 332,000,000 new shares of the Company (the "Subscription Shares") after the Placing completed (the "Subscription").

The Placing Shares were placed to three independent third parties at HK\$0.3 each in the proportion of 166,000,000 shares, 99,600,000 shares and 66,400,000 shares respectively. The Placing Agent charged a placing commission of 1% of the aggregate placing price. The Subscription Shares were issued to the Substantial Shareholder at HK\$0.3 each. The completion of Placing and Subscription took place on 11 August 2006 and 18 August 2006, respectively.



**21. POST BALANCE SHEET EVENT** *(Continued)*

The shareholdings in the Company immediately before completion of the Placing and the Subscription, immediately after completion of the Placing but before completion of the Subscription, and immediately after the Subscription are as follows:

Shareholders	No. of Shares held as at the date of the Placing and Subscription Agreement	%	No. of Shares held immediately after completion of the Placing but before the Subscription	%	No. of Shares held immediately after completion of the Placing and the Subscription <i>(Note)</i>	%
The Substantial Shareholder	608,201,500	36.05	276,201,500	16.37	608,201,500	30.12
Sub-total Public	608,201,500	36.05	276,201,500	16.37	608,201,500	30.12
(excluding placees) Placees	1,046,703,468	62.04	1,046,703,468	62.04	1,046,703,468	51.84
Mr. Hua Sheng	32,200,000	1.91	98,600,000	5.85	98,600,000	4.89
Mr. Dai Fan	Nil	Nil	99,600,000	5.90	99,600,000	4.93
Benemo Corporation	Nil	Nil	166,000,000	9.84	166,000,000	8.22
Total	<u>1,687,104,968</u>	<u>100.00</u>	<u>1,687,104,968</u>	<u>100.00</u>	<u>2,019,104,968</u>	<u>100.00</u>

The details of the Placing and the Subscription were set out in the announcement of the Company dated 8 August 2006 and 18 August 2006.

*Note:* No accounts has been taken in respect of any share options which have been or may be granted by the Company under its share option scheme.

## INTERIM DIVIDEND

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

The Group's turnover amounted to approximately HK\$248 million for the period under review, representing a significant increase when compared to that recorded in the corresponding period in 2005. The rise in the Group's turnover was mainly attributable to the sales revenue of Zhongshi Investment Company Limited ("Zhongshi"), its subsidiary, for the period under review.

The Group recorded a net profit attributable to shareholders of approximately HK\$17.3 million for the period under review as compared to a net loss of HK\$61.9 million for the corresponding period in 2005. It was mainly due to the profit contribution from Zhongshi and the decrease in the share of loss of Suzhou Nanda Cement Company Limited ("Nanda Cement"), its subsidiary, for the period under review as compared to that for the corresponding period in 2005. Also, a provision for a legal claim against one of the Group's wholly owned subsidiaries for its properties in Guangzhou of approximately HK\$52 million was recognized in the corresponding period in 2005.

### Property Development

#### *Zhongshi Investment Company Limited*

The Group's residential development project located at Xicheng District, Beijing completed on schedule in October 2005. It achieved a remarkable result by contributing a net profit of approximately HK\$23 million to the Group for the period under review. Together with the sales made in 2005, all the residential units and 103 car parks of the project were sold and most of them had been delivered to the purchasers at 30 June 2006.

#### *Huzhou Land*

To further enhance the Group's property development business in Mainland China, in June 2006, at a consideration of approximately RMB27.5 million, the Group acquired the entire equity interests of Great Royal International Limited, which is one of the equity owners of Huzhou Wangang United Estate Company Limited ("Huzhou Land Company"), a sino-foreign equity joint venture established in Mainland China, and has a capital commitment of 50% to the registered capital of Huzhou Land Company.

Huzhou Land Company is solely engaged in the development, construction and operation of a piece of vacant land of site area of approximately 214,000 square metres at Nos. 19, 20A of West Southern District of Huzhou City of the Zhejiang Province ("Huzhou Land"), which will be developed as a residential and commercial development for the re-housing of local farmers with a total building floor area of approximately 290,000 square metres. The whole development of Huzhou Land will be purchased by Huzhou People's Government upon its completion at an agreed consideration.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Cement Business**

Nanda Cement recorded a turnover of HK\$16.7 million for the period under review, representing a decrease of 44% as compared to that for the corresponding period in 2005. Despite the decrease in total turnover, Nanda Cement could still manage to achieve a decrease of approximately HK\$4 million in its loss for the period under review as compared to that for the corresponding period in 2005. The drop in loss was mainly attributable to its successful cost control measures.

The sales has picked up since March 2006 due to the overall improved market condition for cement industry in Suzhou. The management of Nanda Cement will continue to implement strict cost control measures and policies to improve its profitability.

### **Disposal of the entire shareholding and shareholder loan of Price Sales Limited**

In January 2006, the Group entered into a conditional disposal agreement (“Disposal Agreement”) for the disposal of a wholly owned subsidiary of the Group, Price Sales Limited, and the shareholder’s loan to that subsidiary to an independent third party at a consideration of approximately US\$24.7 million (equivalent to approximately HK\$193 million). Price Sales Limited is the owner of a 32% interest in Goodwill (Overseas) Limited. The Group and the Purchaser have not come to an agreement on the terms of the formal agreement, as such, no formal agreement has been entered into and payment of the further deposit in the sum of US\$4.5 million (equivalent to approximately HK\$35.1 million) and completion of the disposal are still pending. The Group is seeking to resolve the matter as appropriate.

### **Settlement Agreements in relation to Merry World Associates Limited**

In March 2006, a wholly owned subsidiary of the Group, Merry World Associates Limited (“Merry World”), entered into two settlement agreements with Guangzhou Sui Nan Building Development Limited (“Plaintiff”), putting an end to the disputes and ensuing litigations between them in relation to Zone A (“Property A”) and Zone C (“Property C”) both of Level 3 of Li Wan Plaza, No. 9 Dexing Lu, Li Wan District, Guangzhou City, Guangdong Province, the PRC. Pursuant to the settlement agreements, among other matters, Property A was transferred to the Plaintiff in the period under review and the Plaintiff had discontinued and withdrawn all its claims made and legal proceedings instituted against Merry World in relation to Property C and confirmed the title of Merry World to Property C. The entering into of the two settlement agreements enables the Group to retain Property C despite the judgment of the relevant court in the PRC ordering the transfer of Property C by Merry World to the Plaintiff.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Capital Reduction

On 20 June 2006, the High Court of the Hong Kong Special Administrative Region made an order confirming the cancellation of the entire sum standing to the credit of the share premium account of the Company as at 31 December 2004 and set off with the accumulated losses of the Company (the "Capital Reduction"). A credit amount of HK\$939,273,144.96 arising from the Capital Reduction has been applied to write off the accumulated losses of HK\$938,308,422.76 of the Company as at 31 December 2004 and the balance of HK\$964,722.20 has been transferred to a special capital reserve created by the Company.

Although there is no assurance that a dividend will be declared or paid in the future, the principal purpose of the Capital Reduction is to enable the Company to achieve a capital structure that would permit the payment of dividends to its shareholders as and when appropriate.

### Outlook

Following the stringent macro-economic control measures implemented by the central government in the second half of 2005, sales turnover of the property market in Mainland China has become stable. In the long run, these measures will contribute to bring about sustained economic growth and influx of foreign investments, eventually leading to a healthier property market in the Mainland China.

In view of the favourable environment of the capital market, the Group had in August conducted a fund raising activity and an aggregate of 332,000,000 shares of the Company were placed to three independent investors in a top-up placing, raising a net proceeds of approximately HK\$98.1 million. The net proceeds from the placing are intended to be used for the Group's property development business in Mainland China and for general working capital of the Group.

China Chengtong Holdings Group Limited ("CCHG") (formerly known as China Chengtong Holdings Company), the Group's ultimate holding company, is the largest integrated warehousing logistics service enterprise in Mainland China, and has been selected by the State-owned Assets Supervision and Administration Commission of the State Council as a state-owned asset operating company. It was assigned a group of state-owned factories which further increased its land reserve.

Further to the dedicated efforts on the disposals of non-core and not well performed assets in the past two years, the Group is now in a position to explore appropriate investment opportunities in Mainland China in order to enhance its growth. With the immense support from CCHG, the Group will endeavour to broaden its quality portfolio in its property development business. The Board is confident of the Group's prospects.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Pledge of Assets

As at 30 June 2006, the Group's plant and machinery with aggregate carrying value of approximately HK\$9 million was pledged as securities for the Group's borrowing and banking facilities.

### Gearing Ratio

As at 30 June 2006, the Group's gearing ratio calculated on the basis of total bank loans, loans from minority interests and other loans of approximately HK\$62 million and total assets of approximately HK\$536 million, was 0.12 (31 December 2005: 0.06).

### Liquidity and Capital Resources

The Group's financial position remained healthy during the period under review.

At 30 June 2006, the Group had cash and bank balances amounting to HK\$105 million (31 December 2005: HK\$115 million), and current assets and current liabilities of HK\$362 million and HK\$218 million respectively (31 December 2005: HK\$552 million and HK\$403 million respectively). Out of the cash and bank balances of HK\$105 million at 30 June 2006, a sum of HK\$4.2 million was deposited in a new and segregated bank deposit account which sum is held on trust for those creditors of the Company who have not given their consents to the capital reduction of the Company as at its effective date.

At both 30 June 2006 and 31 December 2005, the Group's bank borrowings amounted to approximately HK\$17.6 million which is repayable within one year with interest at commercial rate and were secured by the Group's plant and machinery with aggregate carrying value of approximately HK\$9 million. At 30 June 2006, except the loan due to a related company of approximately HK\$18 million that is unsecured and bears interest at the rate of 3.5% per annum, all the other loans due by the Group are unsecured and interest free. The Group anticipates that it has adequate financial resources to meet its obligations for the coming year.

The Group will continue to employ conservative and sound financial planning, ensuring a solid financial position to support its future growth.

The Company has not issued any additional shares during the period ended 30 June 2006 (corresponding period in 2005: nil).

### Foreign Exchange Risk Management

The business activities and operation of the Group are mainly in Hong Kong and Mainland China, with revenue and expenditure denominated in Hong Kong dollars and Renminbi. The Group considers that fluctuations in exchange rates 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.

**MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)***Human Resources**

At 30 June 2006, the Group employed a total of 181 employees, of which 13 were based in Hong Kong and 168 were based in Mainland China. Employee's remunerations are determined in accordance with nature of their duties and remain competitive under current market trend.

**PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

For the six months ended 30 June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES**

As at 30 June 2006, none of the directors of the Company had interests in or short positions of the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

Apart from as disclosed under the paragraph headed "Share Options Scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors, chief executives or their respective spouse, or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors and the chief executives to acquire such rights in any other body corporate.

## SHARE OPTIONS SCHEME

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 24 June 2003, a share option scheme was adopted by the Company. Details of movements in the Company's outstanding share options during the six months ended 30 June 2006 are set out below:—

	Date of grant	Exercisable period	Exercise price	Number of share options					At 30 June 2006	Aggregate long position in underlying shares to issued share capital of the Company %
				At 1 January 2006	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period		
Directors										
Ma Zhengwu	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	-	-	-	-	1,200,000	0.07
Zhang Guotong	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	
Wu Chun Wah, Michael	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	-	-	(1,200,000)	-	-	-
(resigned on 10 February 2006)	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
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	8.3.2004	9.3.2005 to 8.3.2009	0.364	600,000	-	-	-	-	600,000	0.04
				14,600,000	-	-	(4,200,000)	-	10,400,000	
Other employees										
In aggregate	8.3.2004	9.3.2005 to 8.3.2009	0.364	12,250,000	-	-	(500,000)	-	11,750,000	
	28.9.2004	29.9.2005 to 28.9.2008	0.245	23,050,000	-	-	-	-	23,050,000	
				35,300,000	-	-	(500,000)	-	34,800,000	2.06
Total				49,900,000	-	-	(4,700,000)	-	45,200,000	

## SUBSTANTIAL SHAREHOLDERS AND OTHERS

Substantial shareholders and others person who are required to disclose their interests pursuant to Part XV of the SFO.

As at 11 September 2006, the following shareholders had interests in or short positions of the shares and underlying shares of the Company as recorded in register required to be kept by the Company under section 336 of the SFO.

### Substantial shareholders of the Company

Name	Capacity	Number of shares held for long position	Approximate percentage
World Gain Holdings Limited	beneficial owner (Note 1)	608,201,500	30.09%
China Chengtong Hong Kong Company Limited	controlled corporation (Note 1)	608,201,500	30.09%
China Chengtong Holdings Group Limited	controlled corporation	608,201,500	30.09%
Benemo Corporation	beneficial owner (Note 2)	166,000,000	8.21%
Dai Fan	beneficial owner	99,600,000	4.93%
Hua Sheng	beneficial owner	98,600,000	4.88%

*Note 1:* The entire share capital of World Gain Holdings Limited is beneficially owned by China Chengtong Hong Kong Company Limited, the entire issued share capital of which is beneficially owned by China Chengtong Holdings Group Limited (formerly known as China Chengtong Holdings Company).

*Note 2:* Benemo Corporation, whose ultimate beneficial owner are Mr. Xu Yu Rong and Mr. Lin Xiang, each holding 50% interest in the company.

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 11 September 2006.



### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the “Model Code”). Having made specific enquiry of all the directors of the Company, they confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 30 June 2006.

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has complied with provisions of Rules 3.10(1) and 3.10(2) of the Listing Rules that a sufficient number of independent non-executive directors shall be appointed by listed issuers and that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. For the detailed profile of the independent non-executive directors of the Company, please see the annual report of the Company for the year 2005.

### **CORPORATE GOVERNANCE**

The directors consider that the Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006, with deviations from the code provision A.4.1 of the Code in respect of the service term and rotation of directors.

Under the Code provision A.4.1 non-executive directors should be appointed for a specific term and subject to re-election. None of the existing non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all directors of the Company (executive and non-executive) are subject to the retirement provisions under Article 105 of the Articles of Association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporation governance practices are no less exacting than those in the Code.

## **AUDIT COMMITTEE**

The Audit Committee of the Company comprises three independent non-executive directors, including Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Lao Youan, and two non-executive directors, including Mr. Hong Shuikun and Ms. Xu Zhen. The principal duties of the Audit Committee include the review of the Company's financial reporting procedures, internal controls and results of the Group. The unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee and Deloitte Touche Tohmatsu, the auditors of the Company.

## **REMUNERATION COMMITTEE**

Pursuant to the provisions of the Code as set out in Appendix 14 of the Listing Rules, the Board of Directors has established the remuneration committee on 29 March 2005. The Remuneration Committee subsequently met on 21 March 2006. The committee comprises the non-executive Chairman, Mr. Ma Zhengwu, the Managing Director, Mr. Zhang Guotong, and three Independent Non-executive Directors, Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Lao Youan. Mr. Tsui is the Chairman of the committee.

**DISCLOSURE PURSUANT TO THE LISTING RULES**

As at 30 June 2006, the aggregate amount of advances made by the Group to its affiliated companies were approximately HK\$168,664,000.

The unaudited combined balance sheet of affiliated companies, Goodwill (Overseas) Limited and Huzhou Wangang United Estate Company Limited, as at 30 June 2006 disclosed in accordance with 13.22 of Chapter 13 of the Listing Rules is as follows:

	<i>HK'000</i>
Non-current assets	<u>581,362</u>
Current assets	50,469
Current liabilities	<u>(21,762)</u>
Net current assets	28,707
Non-current liabilities	
Shareholders' loans	<u>(516,620)</u>
Net assets	<u>93,449</u>

By Order of the Board  
**China Chengtong Development Group Limited**  
**Zhang Guotong**  
*Vice Chairman and Managing Director*

Hong Kong, 11 September 2006