# CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

# 中國誠通發展集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 217)**

## ANNOUNCEMENT OF 2007 FINAL RESULTS

The Board of Directors of China Chengtong Development Group Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 together with the comparative figures for the year ended 31 December 2006 as follows:

## CONSOLIDATED INCOME STATEMENT

*for the year ended 31 December 2007*

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Continuing operations | | | |
| Turnover | 2 | **25,365** | 247,263 |
| Cost of sales | | **(20,344)** | (185,444) |
| Gross profit | | **5,021** | 61,819 |
| Other income | 3 | **21,099** | 9,123 |
| Selling expenses | | **(800)** | (6,655) |
| Administrative expenses | | **(29,159)** | (19,722) |
| Increase (decrease) in fair value of an investment property | | **1,460** | (1,782) |
| Gain on disposal of a subsidiary | | **19,724** | – |
| Finance costs | 4 | **(1,296)** | (140) |
| Share of results of associates | | **(697)** | 1 |
| Share of results of a jointly controlled entity | | **(1,475)** | (728) |
| Profit before taxation | | **13,877** | 41,916 |
| Taxation | 5 | **(9,109)** | (17,424) |
| Profit for the year from continuing operations | | **4,768** | 24,492 |
| Discontinued operations | | | |
| Profit (loss) for the year from discontinued operations | 6 | **32,011** | (1,853) |
| Profit for the year | 7 | **36,779** | 22,639 |
| Attributable to: | | | |
| Shareholders of the Company | | **35,945** | 15,953 |
| Minority interests | | **834** | 6,686 |
| | | **36,779** | 22,639 |
| Earnings per share | 8 | | |
| From continuing and discontinued operations | | | |
| – Basic | | **HK1.39 cent** | HK0.73 cent |
| – Diluted | | **HK1.37 cent** | HK0.73 cent |
| From continuing operations | | | |
| – Basic | | **HK0.15 cent** | HK0.84 cent |
| – Diluted | | **HK0.14 cent** | HK0.83 cent |

## CONSOLIDATED BALANCE SHEET

*At 31 December 2007*

| | Notes | **2007** | 2006 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Non-current assets | | | |
| Property, plant and equipment | | **3,232** | 1,404 |
| Investment properties | | **83,740** | 45,000 |
| Interests in associates | | **41,599** | 264 |
| Amount due from an associate | | **139,874** | 148,605 |
| Interest in a jointly controlled entity | | **103,881** | 99,740 |
| Restricted bank balance | | **4,200** | 4,200 |
| | | **376,526** | 299,213 |
| Current assets | | | |
| Properties held for sale | | **32,678** | 50,415 |
| Trade and other receivables | *9* | **7,959** | 7,769 |
| Bills receivable | | **5,035** | – |
| Amounts due from associates | | **9,724** | – |
| Amounts due from related companies | | **4,741** | 4,507 |
| Bank balances and cash | | **298,626** | 117,372 |
| | | **358,763** | 180,063 |
| Assets classified as held for sale | *6* | **–** | 50,483 |
| | | **358,763** | 230,546 |
| Current liabilities | | | |
| Trade and other payables | *10* | **54,825** | 59,470 |
| Deposits received on sale of properties | | **11,410** | 1,055 |
| Amounts due to related companies | | **17,084** | – |
| Amount due to a minority shareholder of a subsidiary | | **3,978** | 3,978 |
| Tax payable | | **12,505** | 17,347 |
| Unsecured other loans | | **7,196** | 7,196 |
| | | **106,998** | 89,046 |
| Liabilities associated with assets classified as held for sale | *6* | **–** | 35,721 |
| | | **106,998** | 124,767 |
| Net current assets | | **251,765** | 105,779 |
| Total assets less current liabilities | | **628,291** | 404,992 |
| Non-current liabilities | | | |
| Deferred taxation | | **4,737** | 3,937 |
| Net assets | | **623,554** | 401,055 |

## CONSOLIDATED BALANCE SHEET *(Continued)*

*At 31 December 2007*

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital and reserves | | |
| Share capital | **267,202** | 202,350 |
| Reserves | **356,352** | 170,462 |
| Equity attributable to shareholders of the Company | **623,554** | 372,812 |
| Minority interests | **–** | 28,243 |
| | **623,554** | 401,055 |

## 1. BASIS OF CONSOLIDATION AND APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company and its subsidiaries (collectively referred to as the "Group") have applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures |
| HKFRS 7 | Financial instruments: Disclosures |
| HK(IFRIC)-INT 7 | Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC)-INT 8 | Scope of HKFRS 2 |
| HK(IFRIC)-INT 9 | Reassessment of embedded derivatives |
| HK(IFRIC)-INT 10 | Interim financial reporting and impairment |

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

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of financial statements[1] |
| HKAS 23 (Revised) | Borrowing costs[1] |
| HKFRS 8 | Operating segments[1] |
| HK(IFRIC)-INT 11 | HKFRS 2: Group and treasury share transactions[2] |
| HK(IFRIC)-INT 12 | Service concession arrangements[3] |
| HK(IFRIC)-INT 13 | Customer loyalty programmes[4] |
| HK(IFRIC)-INT 14 | HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[3] |

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 July 2008.

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

## 1. BASIS OF CONSOLIDATION AND APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

## 2. 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 year, the Group discontinued its business of trade and manufacture of cement (see note 6). Accordingly, the businesses of trade and manufacture of cement is classified as discontinued operations. During the year ended 31 December 2006, the Group discontinued its trade of goods business. Segment information about the Group's businesses is presented as below:

| | Continuing operations | | | | Discontinued operations | | |
|---|---|---|---|---|---|---|---|
| | Property investment *HK$'000* | Property development *HK$'000* | Corporate *HK$'000* | Total *HK$'000* | Trade and manufacture of cement *HK$'000* | Total *HK$'000* | Consolidated *HK$'000* |
| **For the year ended 31 December 2007** | | | | | | | |
| **Turnover** | | | | | | | |
| Segment turnover | 1,868 | 23,497 | | 25,365 | 27,454 | 27,454 | 52,819 |
| **Result** | | | | | | | |
| Segment result | 2,185 | (949 ) | | 1,236 | 5 | 5 | 1,241 |
| Gain on disposal of subsidiaries | | | | 19,724 | | 32,003 | 51,727 |
| Share of results of associates | | | | (697 ) | | - | (697 ) |
| Share of results of a jointly controlled entity | | | | (1,475 ) | | - | (1,475 ) |
| Unallocated other income | | | | 18,024 | | 3 | 18,027 |
| Unallocated corporate expenses | | | | (21,639 ) | | - | (21,639 ) |
| Finance costs | | | | (1,296 ) | | - | (1,296 ) |
| Profit before taxation | | | | 13,877 | | 32,011 | 45,888 |
| Taxation | | | | (9,109 ) | | - | (9,109 ) |
| Profit for the year | | | | 4,768 | | 32,011 | 36,779 |
| **Other information** | | | | | | | |
| Additions of property, plant and equipment | 1,038 | 1,694 | 29 | 2,761 | 75 | 75 | 2,836 |
| Addition of investment property | 33,280 | - | - | 33,280 | - | - | 33,280 |
| Increase in fair value of investment properties | 1,460 | - | - | 1,460 | - | - | 1,460 |
| Allowance for property held for sale | - | (8,283 ) | - | (8,283 ) | - | - | (8,283 ) |
| Depreciation of property, plant and equipment | (201 ) | (236 ) | (387 ) | (824 ) | (1,047 ) | (1,047 ) | (1,871 ) |

## 2. SEGMENT INFORMATION *(Continued)*

| | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| | Property investment *HK$'000* | Property development *HK$'000* | Corporate *HK$'000* | Total *HK$'000* | Trade and manufacture of cement *HK$'000* | Trade of goods *HK$'000* | Total *HK$'000* | Consolidated *HK$'000* |
| For the year ended 31 December 2006 | | | | | | | | |
| **Turnover** | | | | | | | | |
| Segment turnover | 125 | 247,138 | | 247,263 | 44,151 | – | 44,151 | 291,414 |
| **Result** | | | | | | | | |
| Segment result | (787 ) | 54,539 | | 53,752 | (15,617 ) | (13 ) | (15,630 ) | 38,122 |
| Share of results of associates | | | | 1 | | | – | 1 |
| Share of results of a jointly controlled entity | | (728 ) | | (728 ) | | | – | (728 ) |
| Unallocated other income | | | | 6,241 | | | 14,849 | 21,090 |
| Unallocated corporate expenses | | | | (17,210 ) | | | (2 ) | (17,212 ) |
| Finance costs | | | | (140 ) | | | (1,070 ) | (1,210 ) |
| Profit (loss) before taxation | | | | 41,916 | | | (1,853 ) | 40,063 |
| Taxation | | | | (17,424 ) | | | – | (17,424 ) |
| Profit (loss) for the year | | | | 24,492 | | | (1,853 ) | 22,639 |
| **Other information** | | | | | | | | |
| Additions of property, plant and equipment | – | 78 | 955 | 1,033 | 211 | – | 211 | 1,244 |
| Impairment loss on property, plant and equipment | – | – | – | – | (7,840 ) | – | (7,840 ) | (7,840 ) |
| Depreciation of property, plant and equipment | – | (104 ) | (278 ) | (382 ) | (3,142 ) | – | (3,142 ) | (3,524 ) |
| Decrease in fair value of investment properties | (1,782 ) | – | – | (1,782 ) | – | – | – | (1,782 ) |
| Loss on disposal of property, plant and equipment | – | – | (766 ) | (766 ) | (4,045 ) | – | (4,045 ) | (4,811 ) |

## 3. OTHER INCOME

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Gain on securities trading | **8,197** | 1,486 |
| Interest from bank deposits | **4,571** | 2,882 |
| Interest income from an associate | **458** | – |
| Overprovision in a legal claim in prior years | **–** | 1,028 |
| Exchange gain | **3,684** | 1,874 |
| Consultancy and service income | **3,580** | – |
| Others | **609** | 1,853 |
| | **21,099** | 9,123 |

## 4. FINANCE COSTS

| | **Continuing operations** | | **Discontinued operations** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest on bank and other borrowings wholly repayable within five years | **1,296** | 140 | **–** | 1,070 | **1,296** | 1,210 |

## 5. TAXATION

Hong Kong Profits Tax is provided at 17.5% (2006: 17.5%) on the estimated assessable profits for the year. PRC Enterprise Income Tax is provided at 33% (2006: 33%) on the estimated assessable profits for the year.

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| The taxation charge comprises: | | | | | | |
| Current tax: | | | | | | |
| PRC Enterprise Income Tax | **8,763** | 19,465 | **–** | – | **8,763** | 19,465 |
| PRC land appreciation tax *(Note a)* | **3,384** | – | **–** | – | **3,384** | – |
| | **12,147** | 19,465 | **–** | – | **12,147** | 19,465 |
| Overprovision in prior years: | | | | | | |
| Hong Kong | **–** | (284) | **–** | – | **–** | (284) |
| PRC | **(3,294)** | – | **–** | – | **(3,294)** | – |
| | **(3,294)** | (284) | **–** | – | **(3,294)** | (284) |
| | **8,853** | 19,181 | **–** | – | **8,853** | 19,181 |
| Deferred taxation | | | | | | |
| – Current year charge (credit) | **327** | (1,757) | **–** | – | **327** | (1,757) |
| – Attributable to change of PRC Enterprise income tax rate *(Note b)* | **(71)** | – | **–** | – | **(71)** | – |
| | **256** | (1,757) | **–** | – | **256** | (1,757) |
| Taxation charge for the year | **9,109** | 17,424 | **–** | – | **9,109** | 17,424 |

*Notes:*

(a) PRC land appreciation tax is levied at progressive rate ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land and development and construction expenditures.

(b) On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for all PRC subsidiaries from 1 January 2008.

## 6. DISCONTINUED OPERATIONS

### Discontinued trade of goods business

In 2006, the directors of the Company decided to cease the trade of goods business. The operating result was therefore classified as discontinued operations.

The impact of cash flows of the trade of goods business to the Group is insignificant for both years.

### Transfer of the trade and manufacture of cement business for 20% equity interest in a newly established company

On 12 October 2006, the Group entered into a conditional agreement with CIMPOR Inversiones SA ("CIMPOR") to establish a company, namely, CIMPOR Chengtong Cement Corporation Limited ("CIMPOR Chengtong") pursuant to which the Group would own 20% equity interest and CIMPOR would own 80% equity interest in CIMPOR Chengtong. The Group's contribution to CIMPOR Chengtong is by way of transfer of its entire interest in a subsidiary, Sea-Land Mining Limited ("Sea-Land") and Sea-Land's subsidiary, 蘇州南達水泥有限公司 ("Suzhou Nanda") (collectively the "Sea-Land Group") to CIMPOR Chengtong while CIMPOR contributed HK$196,304,000 in cash. This transaction was completed on 20 June 2007.

The Sea-Land Group carried out all of the Group's operation on the trade and manufacture of cement.

## 6. DISCONTINUED OPERATIONS *(Continued)*

**Transfer of the trade and manufacture of cement business for 20% equity interest in a newly established company** *(Continued)*

The results of trade and manufacture of cement operations for the period from 1 January 2007 to 20 June 2007, which have been included in the consolidated income statement, were as follows:

| | **Period ended 20.6.2007** | Year ended 31.12.2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Turnover | **27,454** | 44,151 |
| Cost of sales | **(24,621)** | (41,913) |
| Other income | **247** | 1,003 |
| Gain on waiver of secured other loan and interests | **–** | 14,842 |
| Selling expenses | **(560)** | (1,051) |
| Administrative expenses | **(2,512)** | (17,815) |
| Finance costs | **–** | (1,070) |
| Profit (loss) for the period/year | **8** | (1,853) |
| Gain on disposal of trade and manufacture of cement | **32,003** | – |
| | **32,011** | (1,853) |
| Attributable to: | | |
| Shareholders of the Company | **32,154** | (2,390) |
| Minority interests | **(143)** | 537 |
| | **32,011** | (1,853) |

## 7. PROFIT FOR THE YEAR

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Profit for the year is arrived at after charging: | | | | | | |
| Auditors' remuneration | | | | | | |
| Current year | **2,400** | 1,530 | **–** | – | **2,400** | 1,530 |
| Overprovision in prior years | **–** | (28) | **–** | – | **–** | (28) |
| | **2,400** | 1,502 | **–** | – | **2,400** | 1,502 |
| Allowance for properties held for sale (included in cost of sales) | **8,283** | – | **–** | – | **8,283** | – |
| Depreciation of property, plant and equipment | **824** | 382 | **1,047** | 3,142 | **1,871** | 3,524 |
| Impairment loss on property, plant and equipment (included in administrative expenses) | **–** | – | **–** | 7,840 | **–** | 7,840 |
| Loss on disposal of property, plant and equipment | **–** | 766 | **–** | 4,045 | **–** | 4,811 |
| Minimum lease payments in respect of rented premises | **2,859** | 2,108 | **47** | 74 | **2,906** | 2,182 |
| Contributions to retirement benefits schemes (including directors' emoluments) | **332** | 250 | **237** | 777 | **569** | 1,027 |
| Other staff costs (including directors' emoluments) | **9,276** | 8,024 | **2,124** | 3,120 | **11,400** | 11,144 |
| Cost of inventories recognised as an expense | **19,771** | 185,444 | **24,621** | 41,913 | **44,392** | 227,357 |
| and after crediting: | | | | | | |
| Gross rental income from investment properties, net of negligible outgoings | **1,868** | 912 | **106** | 309 | **1,974** | 1,221 |
| Interest income | **5,029** | 2,882 | **3** | 7 | **5,032** | 2,889 |
| Gain on waiver of secured other loan and interest | **–** | – | **–** | 14,842 | **–** | 14,842 |

## 8. EARNINGS PER SHARE

**From continuing and discontinued operations**

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year and earnings for the purposes of basic and diluted earnings per share | **35,945** | 15,953 |

| | **Number of shares** | |
|---|---|---|
| | **2007** | 2006 (restated) |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **2,588,625,956** | 2,188,014,203 |
| Effect of dilutive potential ordinary shares in respect of share options | **31,227,828** | 11,574,651 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **2,619,853,784** | 2,199,588,854 |

The weighted average number of ordinary shares for the purpose of earnings per share calculation has been adjusted for the rights issue of the Company completed in April 2007.

8. **EARNINGS PER SHARE** *(Continued)*

**From continuing operations**

The calculation of the basic and diluted earnings per share from continuing operations is based on the following data:

Earnings figures are calculated as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year attributable to shareholders of the Company and earnings for the purposes of basic and diluted earnings per share | **35,945** | 15,953 |
| *Less:* (Profit) loss for the year attributable to shareholders of the Company from discontinued operations | **(32,154)** | 2,390 |
| Profit for the year attributable to shareholders of the Company and earnings for the purposes of basic and diluted earnings per share from continuing operations | **3,791** | 18,343 |

The denominators used are the same as those detailed above for both basic and diluted earnings for share.

**From discontinued operations**

Basic and diluted earnings per share for discontinued operations for the year are HK1.24 cent per share and HK1.23 cent per share respectively (2006: HK0.11 cent per share for basic loss per share and HK0.10 per share for diluted loss per share).

9. **TRADE AND OTHER RECEIVABLES**

| | **THE GROUP** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **3,176** | 3,207 |
| Other receivables | **2,207** | 1,378 |
| Prepayments and deposits | **2,576** | 3,184 |
| Total trade and other receivables | **7,959** | 7,769 |

9. **TRADE AND OTHER RECEIVABLES** *(Continued)*

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one month | **90** | – |
| One to two years | **85** | – |
| Over three years | **3,001** | 3,207 |
| | **3,176** | 3,207 |

10. **TRADE AND OTHER PAYABLES**

| | **THE GROUP** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **14,804** | 30,103 |
| Other payables and accruals | **40,021** | 29,367 |
| | **54,825** | 59,470 |

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

| | **THE GROUP** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Two to three years | **7,149** | 22,448 |
| Over three years | **7,655** | 7,655 |
| | **14,804** | 30,103 |

## DIVIDEND

The Board does not recommend any payment of dividend for the year ended 31 December 2007 (year ended 31 December 2006: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### A. Financial Results

The Group stepped into expansion of business segments and scale in 2007. Following the successful completion of reorganization and strategic transformation over the past few years, the Group capitalized on the assets strength upon the reorganization, expanded the assets and invested in the new opportunities with a view to achieving a future growth during the year under review. The Group completed a rights issue to raise fund of approximately HK$200 million for general working capital and future investment opportunities. The Group's current financial position is healthy and has a low debt-equity ratio, strong balance sheet and assets of high liquidity. The equity attributable to shareholders of the Group increased to approximately HK$620 million as at 31 December 2007 from approximately HK$370 million as at 31 December 2006.

The Group recorded a net profit attributable to shareholders of approximately HK$36 million for the year ended 31 December 2007, representing a significant increase of approximately HK$20 million or 125% as compared to that for the year ended 31 December 2006. The increase was mainly attributable to gain on disposals arising from the disposal of 100% interests in Sea-Land Mining Limited ("Sea-Land Mining") and 52% interests in 西安富祥房地產開發有限公司 (unofficial English name, Xian Fuxiang Real Estate Development Limited), ("Xian Fuxiang") held by the Group respectively, and the Group's effective use of the working capital to achieve a short-term steady financing income.

Turnover from the Group's continuing operation for the year ended 31 December 2007 was approximately HK$25 million, representing a significant decrease of approximately 90% as compared to that for the year ended 31 December 2006. The turnover of the Group for both these two years comprised mainly of the sale revenue of the property development project known as City of Mergence ("Beijing City of Mergence") in Beijing, the People's Republic of China (the "PRC").

### B. Business Review

The Group achieved good progress in its primary business segments along the intended strategies in 2007. The successful completion of the acquisition of a commodity residential development project in Xian, Shaanxi province and the acquisition of a piece of industrial land in Luoyang, Henan province from China Chengtong Holdings Group Limited ("CCHG"), the ultimate controlling shareholder of the Company, started to bring profits to the Group. It became a well start for its participating in the asset and business reorganization of CCHG. The main construction of Huzhou project has already been completed in 2007 on schedule. The reorganization of cement asset has already been fully completed and resulted in an expansion of production capacity. Meanwhile, the Group is actively looking for new projects for the preparation for future growth.

To strengthen its capital base, the Group completed a rights issue to raise fund of approximately HK$200 million in order to strengthen the foundation for the continuing sound and stable development of the Company.

**B. Business Review** *(Continued)*

*1. Property Development*

1) Huzhou Property Development Project

In 2006, the Group acquired 50% indirect interest in a residential and commodity development project with site area of approximately 214,000 square metres and gross floor area of 320,000 square metres. Its main construction has already been completed in late 2007. That project will be acquired by Huzhou municipal government at the negotiated price, and delivered for use within the year of 2008, which is expected to contribute profit to the Group in the year of 2008 and 2009.

2) Xian

In 2007, the Group acquired 52% of the equity interest in the Xian Fuxiang at a consideration of RMB25.6 million from a subsidiary of CCHG, while Xian Fuxiang was in the course of developing a commodity property project. In the second half of 2007, while that project was still in the course of development, its market value has significantly increased. The Board believed that disposal of that project would be its best choice based on the assessment of the development prospect and profit estimation of the project. In October 2007, the disposal of such 52% interest to an independent third party at a consideration representing approximately 70% premium over its cost was completed. Such disposal contributed a profit before tax of approximately HK$19.7 million to the Group.

3) Beijing

At 31 December 2007, all of the residential units, 127 car parks and the commercial units of approximately 942 square metres of Beijing City of Mergence had been sold. In 2007, the Group acquired the remaining 30% equity interest in Zhongshi Investment Company Limited ("Zhongshi") ("Zhongshi Acquisition"), gaining the full control of the management structure of Zhongshi, and providing more flexibility for any future investment and financing arrangement of Zhongshi. The Group completed the acquisition of Xian project and Luoyang project through Zhongshi in 2007.

**B. Business Review** *(Continued)*

*2. Property Investment* (Continued)

1) Guangzhou

In September 2006, the commercial unit of the Group with approximately 5,370 square meters which is situated in Zone C, Level 3, Li Wan Plaza, Li Wan District, Guangzhou City, the PRC has started to contribute profit for the Group. In May 2007, the Group entered into a new leasing agreement in respect of the renewal with the original tenant, with an increase of approximately 34% in monthly rental. In 2007, it contributed rental income of approximately RMB1.03 million to the Group.

2) Price Sales Limited

Price Sales Limited, the wholly-owned subsidiary of the Group, owns 32% interest in Goodwill (Overseas) Limited, its associated company. In 2007, Goodwill (Overseas) Limited continued to share in the rental income from East Ocean Centre Phase 2 located in Shanghai. East Ocean Centre Phase 2 continued to maintain its high occupancy rate, with an annual rental income of approximately RMB56 million for 2007.

*3. Land Resource Exploitation*

Luoyang

The Group acquired a piece of land together with the warehouse complex erected thereon with site area of approximately 80,000 square metres located at Luoyang City of the PRC from CCHG in 2007. The land has been zoned into commercial development area. The Group has an intention of making application for a change of its use from industrial to commercial in view of future market environment, resources as well as relevant laws and regulations. The land and its logistic assets as a whole are currently leased to a partner for logistic centre use.

**B. Business Review** *(Continued)*

*4. Strategic Investment*

Cement

In the first half of 2007, the Group lined up with CIMPOR-Cimentos de Portugal, SGPS, S.A., which is an international leading cement group listed on the Euronext exchange in Lisbon, to reorganize its cement business. After the reorganization, the Group transferred its entire interest in Sea-Land Mining to Cimpor Chengtong Cement Corporation Limited (the "Joint Venture"), and accordingly held 20% equity interest in the Joint Venture. At present, the Joint Venture mainly controls two domestic cement production companies in Shandong province and Suzhou province. During the year under review, the consolidated loss attributable to shareholders of the Joint Venture was approximately HK$3.49 million after deducting its consolidated financial expenses HK$20.79 million. By using the equity method of accounting, the Group shared its attributable loss to shareholders approximately HK$700,000. In order to improve asset liability structure of the domestic companies and to reduce financial expense, the Joint Venture planned to increase capital investment in the domestic companies. During the year under review, the Joint Venture has completed an increase of capital of RMB270 million in Shandong company, and its equity interest in Shandong company increased to 96% from 60%.

In 2008, the Joint Venture will invest about RMB600 million through the Shandong company. A new NSP cement clinker production line with an output of 5,000 tons per day in Shandong, and a cement grinding plant with an annual output of 1,000,000 tons in Huaian of Jiangshu province will be newly established. Besides, the Remaining Heat Power Generation Project which consists of two cement clinker production lines with an output of 2,500 tons per day will be invested in Shandong company headquarters. Meanwhile, it plans to increase capital investment in Suzhou company, and intends to look for appropriate mergers and acquisition targets in the Yangtze River Delta economic developed region include Jiangshu, Zhejiang and other regions.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### OUTLOOK

1. *Macro Economic Environment*

   In 2007, the America Subprime Crisis led global fluctuation in financial market, and increase in prices of petroleum and agricultural products gave rise to inflation all over the World. As growth in the PRC economy will remain robust in future, the GDP increased by approximately 11.4 %, whilst the CPI also rose 4.8% over the same period of last year. The real estate investment amount increased by 30.2%, and the average housing price in 70 large and medium-sized cities in PRC increased by 7.6%. Under the background of scientific development concept, to prevent inflation and economic overheating become the main objective of the nation's macro-control. The China's Central Bank has raised interest rate and increased the deposit reserve ratio for many times, and further put forward real estate and land macro-control policies in 2007. It is expected that the overall price growth in China's real estate market will slow down, RMB will continuously appreciate in a faster pace and the increase of land price will be more steady in 2008.

2. *Background information of the shareholder*

   The Group's ultimate controlling shareholder CCHG is one of the central enterprises under the State-Owned Assets Supervision and Administration Commission of the State Council ("SASAC"). SASAC will expedite the reform and reorganization of the central enterprises in 2008, and will decrease the numbers of the central enterprises from currently 150 to 80-100 in 2010. In the past two years, as one of the operational benches of the SASAC, CCHG combined China Huandao Group Co. and China Record Corporation and took over 8 enterprises of China Potevio Group. Moreover, SASAC injected RMB1.5 billion to CCHG to support its assets operation development. CCHG acts its special function in the structure adjustment of the central enterprises.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

**OUTLOOK** *(Continued)*

2. *Background information of the shareholder (Continued)*

   The principal activities of the Group are property investment and development, land resource exploitation and strategy investment. We believe that the Group's property investment and development adopted a flexible cooperation developing strategy, the fluctuation of the macro-environment and the macro-control by the State may not affect the normal development of the relevant business of Group, on the contrary, it may provide the Group with certain opportunities for acquisition. In respect of land resource exploitation, the Group made the industry land which to be included in the commercial development land in the future as a major acquisition targets. As the sole company listed outside Mainland China of CCHG, the Group will try its best to seize the opportunities brought by the large scale of economies through its assets expansion. In 2007, it emphasized particularly on reviewing and demonstrating partial lands quitted from logistics development by CCHG and some industry lands which had been taken over from those centralized enterprises as potential acquisition objects. Due to the effect of the macro-factor, it completed the acquisition of Luoyang Project in 2007 and continuous progress in the land resource development is expected in 2008. Currently, the cement business is the major strategy investment business of the Group, and in 2008, the Group will jointly accelerate the cement investment and merger in the Eastern China with the cement group of Portugal. The Group believed that the reorganization of the cement business completed in 2007 was our successful strategy investment mode, it perfectly incarnated the commercial value which came from the Group's ability in both domestic resources integration and the business operation in international industrial groups. Besides, it also gave us the experience to take the advantage of the background of the CCHG, which acts as a bench of the assets operation in central enterprises, in identifying other strategic investment opportunities in the future.

   The Board is confident of the Group's future development prospect.

**Gearing Ratio**

As at 31 December 2007, the Group's gearing ratio calculated on the basis of loan from minority interests and other loans of approximately HK$11 million and total assets of approximately HK$735 million, was 0.02 (31 December 2006: 0.04).

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

**Liquidity and Capital Resources**

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

At 31 December 2007, the Group had cash and bank balances amounting to HK$303 million (31 December 2006: HK$122 million), and current assets and current liabilities of HK$359 million and HK$107 million respectively (31 December 2006: HK$231 million and HK$125 million respectively). Out of the cash and bank balances of HK$303 million 31 December 2007, a sum of HK$4.2 million was deposited in a 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 the effective date of 21 June 2006.

The amount due to a minority interest of approximately HK$4 million is unsecured, interest-free and repayable on demand. The other loans from third parties of approximately HK$7 million are unsecured, repayable on demand and interest-free, except for a loan of HK$3,600,000 which carried interest at fixed interest rate. The Group anticipates that it has adequate financial resources to meet its commitments and 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.

**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 the appreciation in Renminbi does not impose a significant foreign exchange risk to the Group since its PRC operations mainly use their income in Renminbi to settle their expenses.

**Human Resources**

At 31 December 2007, the Group employed a total of 30 employees, of which 12 were based in Hong Kong and 18 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 year ended 31 December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## 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 year ended 31 December 2007.

## 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 2007.

## 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 year ended 31 December 2007, 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 four independent non-executive directors, including Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec, Mr. Lao Youan and Mr. Ba Shusong 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 audited consolidated 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. 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. 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.

## 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.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2007 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

Hong Kong, 20 March 2008

*As at the date of this announcement, the executive Directors are Mr. Zhang Guotong and Mr. Wang Hongxin; the non-executive Directors are Mr. Ma Zhengwu, Mr. Hong Shuikun, Mr. Gu Laiyun and Ms. Xu Zhen; and the independent non-executive Directors are Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec, Mr. Lao Youan and Mr. Ba Shusong.*