CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 217)

Annual Report **2006**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Zhang Guotong
(Vice Chairman and Managing Director)
Wang Hongxin

Non-Executive Directors

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

Independent Non-Executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Lai Ka Fai

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

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SHARE REGISTRARS & TRANSFER OFFICE

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183 Queen's Road East, Wanchai, Hong Kong
Tel: (852) 2862-8628
Fax: (852) 2865-0990

SHARE LISTING

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

CHAIRMAN'S STATEMENT

I would like to present hereby on behalf of the board of directors (the "Board") the annual report of China Chengtong Development Group Limited (the "Company") together with its subsidiaries (the "Group") for the financial year ended 31 December 2006.

FINAL RESULTS

The Group's audited profit attributable to shareholders for the year ended 31 December 2006 was approximately HK$16 million (2005: loss attributable to shareholders HK$46 million). Earnings per share were HK0.88 cent (2005: Loss per share HK2.73 cents).

DIVIDEND

The board does not recommend any payment of dividend for the year ended 31 December 2006 (2005: nil).

OVERVIEW

The Group recorded a profit for the year ended 31 December 2006 as compared to a loss in 2005. It was mainly attributable to the satisfactory sale revenue of a property development project ("City of Mergence") in Beijing, the People's Republic of China (the "PRC") of its subsidiary. City of Mergence was the first project injected by China Chengtong Holdings Group Limited ("CCHG"), its ultimate controlling shareholder. Its success initiated a good start of the Group's property development business.

Further to the acquisition of the Group by CCHG in 2003, the Group sold and disposed of the non-core and not well performed assets during the past few years. 2006 was a year of undergoing a strategically transformation for the Group. According to the configured development direction, the Group steadily transformed and expanded its core businesses and asset portfolio. With property development, development of land resources and strategic planning as its core businesses, the Group also lined up with a leading international cement enterprise with the aim of restructuring the assets in Suzhou Nanda Cement Company Limited 蘇州南達水泥有限公司, its subsidiary. It made an investment in a property development project in Huzhou, Zhejiang Province in 2006. In addition, it signed the conditional agreements in 2007 to acquire 52% of the equity interest in a company which was principally engaged in a property development project in Xian and the entire equity interest in Luoyang Guanlin Zhongchu Logistics Centre 洛陽關林中儲物流中心 from the subsidiaries of CCHG. The latter owns a piece of allocated land which is currently zoned into commercial use. Application can be made to Luoyang's local government for a change of its use from industrial to commercial. The move can increase the Group's land resources. On the other hand, to strengthen its growth momentum and enhance its asset value, the Group placed an aggregate of 332,000,000 shares of the Company to three independent investors in a top-up placing, raising a net proceeds of approximately HK$98 million in 2006. Also, it announced in 2007 to raise additional fund of approximately HK$200 million by way of rights issue. In addition, the Group conducted capital reduction in 2006 to eliminate the accumulated losses as at 31 December 2004. 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 the capital structure that would permit the payment of dividends to its shareholders as and when appropriate.

CORPORATE GOVERNANCE

The Group is fully aware that the maintenance of an effective corporate governance framework is essential to lay a sound foundation for its long-term steady growth and development. In this respect, the Group considers that good governance practices should embody transparency of corporate structures and operations, and corporate responsibility towards its shareholders, employees and stakeholders. The Group will continue to enhance its corporate governance, strengthen its professional management team and improve its management standard.

CHAIRMAN'S STATEMENT

PROSPECTS

The Mainland's economy has continued to develop rapidly. All major sectors were improving in line with the stated targets of the macroeconomic control programme. As a result, rapid economic growth and low inflation was demonstrated. The Mainland has continued to launch various tightening measures on strengthening the effect of the macroeconomic control programme with dedicated efforts. Those measures are conducive to a more healthy development on the growth pattern and a more promising future of its economy. The Group considers that it is safe to predict that the growth potential in value of land resources in the PRC is substantial in the long run.

The Group's ultimate controlling shareholder CCHG is the largest integrated warehousing logistics service enterprise in the PRC, and is also one of the two asset operating companies under the State-owned Assets Supervision and Administration Commission of the State Council. CCHG has the largest land reserve for logistic usage in the PRC, and at the same time, it can keep obtaining new land resources through assuming the responsibility of assets management in State-owned enterprises. As such, besides finding suitable investment opportunity in Mainland China, the Group is now studying on integrating CCHG's assets management business, to determine whether it is feasible of including the land for industrial usage on the commercial development lot as a major investment acquisition target, so as to accelerate the growth of the land reserve and property development scale of the Group.

The Group will further strengthen its asset base in 2007 with dedicated efforts. With the immense support of CCHG, the Group is well positioned to build its quality assets and enlarge its profitability base. The Board is confident of its future prospects. With the commitment to shareholders' value and corporate governance, the Group is looking forward to enjoying greater success with the shareholders.

APPRECIATION

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

Ma Zhengwu
Chairman

Hong Kong, 30 March 2007

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The Group recorded a turnover of approximately HK$247 million for the year ended 31 December 2006, an increase of 117% as compared to that for the year ended 31 December 2005. The increase was mainly resulted from the sale revenue of the property development project in Beijing, the People's Republic of China (the "PRC") of Zhongshi Investment Company Limited ("Zhongshi"), its subsidiary.

The Group recorded a net profit attributable to shareholders of approximately HK$16 million for the year ended 31 December 2006 as compared to a net loss of approximately HK$46 million for the year ended 31 December 2005. It should be noted that the loss for the year ended 31 December 2005 included a provision for legal claim of approximately HK$8.7 million and impairment loss on property, plant and equipment of Suzhou Nanda Cement Company Limited 蘇洲南達水泥有限公司 ("Suzhou Nanda") of approximately HK$23.8 million.

BUSINESS REVIEW

The Company achieved good progress in all business segments in 2006. For development of principal business, it made an investment in the Huzhou Project in Zhejiang Province and acquired a commodity residential development project in Xian to enhance its property development capacity in 2007. In particular, the acquisition of Luoyang Guanlin Zhongchu Logistics Centre 洛陽關林中儲物流中心 ("Luoyang PRC Company") is the Group's first attempt to participate in the land reserve development businesses of China Chengtong Holdings Group Limited ("CCHG"), its ultimate controlling shareholder. On the other hand, the Group lined up with a leading international cement enterprise with the aim of restructuring its cement assets in Suzhou Nanda. The move should be beneficial to the Group such that it can concentrate in the business of land resource development and property development while continuing to enjoy the growth of the cement industry in the PRC.

In order to strengthen its capital base, the Company had completed a private placement and undergone a capital reduction during the year. In addition, it has been proceeding with a right issue exercise since early 2007. The initiatives should help to improve the quality in the Group's capital and to raise fund for the development of its principal business.

PROPERTY DEVELOPMENT

Zhongshi

Zhongshi, the Group's 70% owned subsidiary, is principally engaged in property development. Zhongshi is the developer of a residential/commercial development project known as City of Mergence located at Nos. 9 and 11, Baiwanzhuang Dajie, Xicheng District, Beijing, the PRC ("City of Mergence").

For the year ended 31 December 2006, the Group recorded a turnover and pre-tax profit from the sale of units and car-parking space of the City of Mergence amounting to approximately HK$247 million and HK$55.6 million respectively. In comparison, the Group recorded turnover and pre-tax profit of approximately HK$114 million and HK$8.20 million respectively from this project for the year ended 31 December 2005.

On 27 March 2007, the Group entered into a conditional acquisition agreement with a minority shareholder of Zhongshi regarding the acquisition of 30% interests in Zhongshi. Zhongshi will become a wholly owned subsidiary by the Group following completion of the acquisition of 30% interests in Zhongshi. The management believes that the move will enable the Group to leverage on the property investment platform of Zhongshi in order to speed up the expansion of the Group's property development business in the PRC.

Huzhou Land Company

In June 2006, the Group acquired 50% indirect interest in a sino-foreign equity joint venture ("Huzhou Land Company") established in the PRC which is solely engaged in the development of a property development project with site area of approximately 214,000 square metres and gross floor area of 320,000 square metres located at the Huzhou City of the Zhejiang Province of the PRC through the acquisition of Great Royal International Limited at a consideration of RMB27.5 million. Before acquisition, the capital contribution made by Great Royal International Limited towards the registered capital of Huzhou Land Company amounted to approximately RMB22.5 million. After the acquisition and up to 31 December 2006, the Group has already made the remaining capital contribution of Great Royal International Limited of approximately RMB73.2 million towards the registered capital of Huzhou Land Company. Currently, the stage of completion has reached 70% and the construction work is expected to be completed by the end of 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Acquisitions of Xian and Luoyang PRC Companies
To further enhance the Group's property development business in the PRC the Group had through Zhongshi entered into two agreements for the acquisitions of 52% of the equity interest in the Xian Fuxiang Real Estate Development Limited 西安富祥房地產開發有限公司 ("Xian PRC Company") at a consideration of RMB25.6 million and the entire equity interest in the Luoyang PRC Company at a consideration of RMB26.7 million respectively from two subsidiaries of CCHG.

The Xian PRC Company is in the course of developing a commodity residential development project located at Xian City, Shanxi Province of the PRC with site area of approximately 79,000 square metres.

Luoyang PRC Company owns a piece of allocated land together with the buildings erected thereon with site area of 80,000 square metres located at Luoyang City, Henan Province of the PRC. The land is currently used for industrial use but it has been zoned into the new commercial development area by the local government. Application can be made to Luoyang's local government for a change of its use from industrial to commercial.

In the event that the independent shareholders' approval to the each of above acquisitions is not obtained at the forthcoming extraordinary general meeting of the Company to be held and convene approving the acquisitions, the interests in the Xian PRC Company and the Luoyang PRC Company acquired by the Group will be repurchased by the relevant vendors.

Further details on the above acquisitions could be found in the announcement made by the Company dated 22 March 2007.

PROPERTY INVESTMENTS

Li Wan Plaza
During the year under review, the Group entered into two settlement agreements with Guangzhou Sui Nan Building Development Limited 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, Li Wan Plaza, No. 9 Dexing Lu, Li Wan District, Guangzhou City, Guangdong Province, the PRC. The entering into of the two settlements agreements enables the Group to retain retail area of 5,370 square metres in Property C. It started to contribute rental income to the Group since September 2006.

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. Price Sales Limited owns 32% interest in Goodwill (Overseas) Limited. The disposal has terminated, the reason for that has already announced. Other than the non-recognition of the gain on the disposal of approximately HK$31.6 million previously expected to have had upon completion of the disposal, it is expected that the termination of the disposal will not have a material adverse financial and operational impact on the Group. Goodwill (Overseas) Limited contributed a net cash income of approximately HK$12 million to the Group in 2006.

STRATEGIC INVESTMENT

Suzhou Nanda, a subsidiary that the Group held 71.03% interest and principally engaged in trading and production of cement, had turnover of approximately HK$44 million for the year ended 31 December 2006, representing a decrease of 5% from that in 2005. Loss for the year was approximately HK$1.8 million, whereas a loss of approximately HK$31.5 million was recorded in 2005.

On 12 October 2006, the Group entered into a subscription and shareholders' agreement ("Subscription Agreement") with Cimpor Inversiones SA ("Cimpor") for the establishment of a joint venture company which will act as the vehicle for the furtherance of the sale and production of cement and related ancillary business. The investment of the Group's 20% interest in the joint venture company was made by the transferring Sea-Land Mining Limited, which in turn holds 71.03% interest in the registered capital of Suzhou Nanda. In addition, the joint venture company has entered into an agreement to acquire the 60% equity interest in a company engages in clinker and cement production and related businesses in Shandong province of the PRC in October 2006. The approvals necessary for the acquisition under the agreement are in the course of obtaining the approval from the government of Shandong Province and the procedure is expected to be completed prior to 30 June 2007.

As Suzhou Nanda locates in rural area in Suzhou, it lacks the ability of producing clinker, and as cement production is not the core business of the Group, it is necessary for the Group to identify a partner to reorganize Suzhou Nanda. Cimpor – Cimentos de Portugal, SGPS, S.A. is the holding company of Cimpor, and is a renowned cement enterprise rank No. 9 in the world. Leveraging on its ability in cement investment and export business worldwide, and also its advanced cement production technology and high management standard, the joint venture will continue to identify acquisition target in cement industry in PRC. The above action can enhance the Group's profitability in the strategy investment in cement industry.

RIGHTS ISSUE

On 9 January 2007, the Board announced that the Company proposed to raise approximately HK$200.3 million before expenses by issuing not less than 607,051,490 shares and to raise not more than approximately HK$203.3 million before expenses by issuing not more than 616,021,490 shares by way of rights at the subscription price of HK$0.33 per share on the basis of three rights shares for every ten existing shares in issue on the record date (i.e. 19 March 2007). The resolutions have been passed in the extraordinary meeting of the Company held on 19 March 2007. The commencement of dealings in fully paid shares issued pursuant to the rights issue is expected to be on 18 April 2007.

The Group intends to use the net proceeds from the rights issue as to approximately 20% for general working capital of the Group and approximately 80% for future property development in Hong Kong and the PRC. The Board believed that raising further equity by means of rights issue would allow the Company to strengthen its capital base and provide an opportunity to the shareholders to participate in the growth of the Group.

OUTLOOK

The principal activities of the Group are property development, development of land resources, and strategic investment. The Group will continue to focus on these principal activities and identify new investment opportunities which are beneficial to the Group and our shareholders. The Group's property development and land development business initiated a good start in 2005 and 2006.

As growth in the PRC economy will remain robust in future, the value of Renminbi is expected to keep appreciate, and the trend of household's spending power continues to strengthen, the Group considers that it is safe to predict that the value of land resources in the PRC will keep enhancing and the growth potential in value is substantial. The Group's ultimate controlling shareholder CCHG is the largest integrated warehousing logistics service enterprise in the PRC, and is one of the two asset operating companies under the State-owned Assets Supervision and Administration Commission of the State Council. CCHG has the largest land reserve for logistic usage in PRC, and at the same time, it can keep obtaining new land resources through assuming the responsibility of assets management in State-owned enterprises. As such, besides finding suitable investment opportunity in Mainland China, the Group is now studying on integrating CCHG's assets management business, to determine whether it is feasible of including the land for industrial usage on the commercial development lot as a major investment acquisition target, so as to accelerate the growth of the land reserve and property development scale of the Group.

PLEDGE OF ASSETS

As at 31 December 2006, the Group's plant and machinery with aggregate carrying value of approximately HK$3.6 million was pledged as securities for the Group's borrowing facilities.

GEARING RATIO

As at 31 December 2006, the Group's gearing ratio calculated on the basis of total bank loans, loans from minority interests and other loans of approximately HK$20 million and total assets of approximately HK$530 million, was 0.04 (31 December 2005: 0.06).

LIQUIDITY AND CAPITAL RESOURCES

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

At 31 December 2006, the Group had cash and bank balances amounting to HK$122 million (31 December 2005: HK$115 million), and current assets and current liabilities of HK$235 million and HK$125 million respectively (31 December 2005: HK$552 million and HK$403 million respectively). Out of the cash and bank balances of HK$122 million at 31 December 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 31 December 2006 and 31 December 2005, the Group's secured borrowings amounted to approximately HK$9 million and HK$17.6 million respectively, 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$3.6 million (31 December 2005: HK$9 million). At 31 December 2006, the secured loan together with other loan of approximately HK$4 million are carrying interest at commercial rate while 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 had issued 336.4 million shares ranking pari passu with existing shares during the year ended 31 December 2006 (31 December 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.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2006, the Group employed a total of 214 employees, of which 12 were based in Hong Kong and 202 were based in Mainland China. Employee's remunerations are determined in accordance with nature of their duties and remain competitive under current market trend.

The Company has a share option scheme under which the Company may grant options to eligible employees to subscribe for shares in the Company. Particulars of the scheme are to be set out in the note 34 to the consolidated financial statement.

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Ma Zhengwu

Aged 44, is the chairman and a non-executive director of the Group. Mr. Ma joined the Group in February 2003. Mr. Ma graduated from Beijing Chemical Technology College in 1985 and holds a bachelor degree in science, and also holds a master degree in business administration from Hunan University in 1999. Mr. Ma is well experienced in corporate management and has held senior management positions in various large enterprises. He serves as an vice chairman of China Logistics and Purchasing Federation. He is also the chairman of China Chengtong Holdings Group Limited, the ultimate controlling shareholder of the Company.

Mr. Zhang Guotong

Aged 43, is the vice chairman and the managing director of the Group. Mr. Zhang joined the Group in February 2003. Mr. Zhang graduated from Sun Yat-sen University in 1985 and holds a bachelor degree in economics. He has held senior position in various large companies in the PRC, including directorship of listed companies, chief executive of China Logistics Company in Mainland China and general manager of China National Materials Development & Investment Corporation. Mr. Zhang has extensive experience in investment, property development, assets management and corporate management. He is currently the director of China Chengtong Holdings Group Limited, the ultimate controlling shareholder of the Company.

Mr. Wang Hongxin

Aged 43, is an executive director of the Group. Mr. Wang joined the Group in March 2005. Mr. Wang graduated from Jilin Normal University in the PRC with a bachelor degree of arts and an executive master of business administration degree from the Guanghua School of Management of Beijing University in the PRC. He was a director and a deputy general manager for Maoming Yongye (Group) Co. Ltd., whose shares are listed on the Shenzhen Stock Exchange and previously worked as assistant to general manager for China Materials Investment Corporation in the PRC.

Mr. Wu Chun Wah, Michael

Aged 42, is an executive director of the Group. Mr. Wu joined the Group in February 2003. Mr. Wu graduated from Northeast Louisiana University and holds a master degree in business administration. Mr. Wu also obtained a diploma of China trade and investment from Beijing University, a diploma of China laws from Guangdong Economic Laws Research Centre and a postgraduate diploma in management from Asia International Open University. Prior to joining the Group, he has worked for several international financial institutions including BNP Paribas Peregrine Capital Limited, CCIC Finance Limited and American Express Bank Limited. Mr. Wu has extensive experience in financial investment and corporate finance. He is a fellow member of the Hong Kong Institute of Directors.

Mr. Hong Shuikun

Aged 51, is a non-executive director of the Group. Mr. Hong joined the Group in February 2003. Mr. Hong graduated from Shanghai Fudan University in journalism in 1978. He also obtained post-graduate qualifications from Central Party School of China in economics in 2002. Mr. Hong is a reputable expert in the logistics industry of Mainland China and he has many years of experience in management of large logistics enterprises. Mr. Hong was a general manager of China National Storage and Transportation Corporation and the chairman of Zhongchu Development Stock Company Limited, which is a company listed on the Shanghai Stock Exchange in the PRC. Mr. Hong is currently the President of China Chengtong Holdings Group Limited, the ultimate controlling shareholder of the Company.

Ms. Xu Zhen

Aged 42, is a non-executive director of the Group. Ms. Xu joined the Group in March 2005. Ms. Xu graduated from Dongbei University of Finance and Economics in the PRC with a bachelor degree in economics and a master degree in accounting studies. Ms. Xu previously worked for China Materials Investment Corporation as deputy general manager and is currently the chief accountant of China Chengtong Holdings Group Limited, the ultimate controlling shareholder of the Company. Ms. Xu currently is also a director of Create Technology & Science Company Limited whose shares are listed on the Shenzhen Stock Exchange.

Mr. Gu Lailiun

Aged 43, is a non-executive director of the Group. Mr. Gu joined the Group in February 2003. Mr. Gu graduated from Dongbei University of Finance and Economics in 1985 and holds both a bachelor degree in economics and master of science degree from Jilin University. Mr. Gu has extensive experience in corporate management and he is the assistant to president of China Chengtong Holdings Group Limited, the ultimate controlling shareholder of the Company.

Mr. Tsui Yiu Wa, Alec

Aged 57, is an independent non-executive director of the Group. Mr. Tsui joined the Group in March 2003. He is the Chairman of WAG Worldsec Corporate Finance Limited and Vice-chairman of China Mergers and Acquisitions Association. Mr. Tsui was the Chairman of the Hong Kong Securities Institute from 2001 to 2004, and the Chief Operating Officer of Hong Kong Exchanges and Clearing Limited in 2000. He is an independent non-executive director of a number of listed companies in Hong Kong, including Industrial and Commercial Bank of China (Asia) Limited, Vertex Communications & Technology Group Limited, China Power International Development Limited, COSCO International Holdings Limited, Synergis Holdings Limited, China BlueChemical Limited, Greentown China Holdings Limited, China Hui Yuan Juice Group Limited and Melco PBL Entertainment (Macau) Limited. He is also a director of Hong Kong Professional Consultants Association Limited and AIG Huatai Fund Management Company Limited. Mr. Tsui graduated from the University of Tennessee, United States with a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering. He completed a Program for Senior Managers in Government at the John F.Kennedy School of Government of Harvard University. He has numerous years of experience in finance and administration, corporate and strategic planning, information technology as well as human resources management.

Mr. Kwong Che Keung, Gordon

Aged 57, has been an independent non-executive Director of the Company since March 2003. Mr. Kwong has also been serving as a member of the remuneration committee of the Company and the chairman of the audit committee of the Company since March 2003. He is currently served as independent non-executive director of a number of companies listed on the Stock Exchange, namely COSCO International Holdings Limited, Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, China Oilfield Services Limited, Concepta Investments Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China, Limited, Quam Limited, Tom Online Inc., China Power International Development Limited, New World Mobile Holdings Limited, Henderson Land Development Company Limited, Henderson Investment Limited and Agile Property Holdings Limited. From 1984 to 1998, Mr. Kwong was a partner of Pricewaterhouse and was a council member of the Stock Exchange from 1992-1997. He has a Bachelor of Social Science degree from the University of Hong Kong and is a fellow member of the Institute of Chartered Accountants in England and Wales.

Mr. Lao Youan

Aged 42, is an independent non-executive director of the Group. Mr. Lao joined the Group in April 2002. Mr. Lao graduated from Sun Yat-sen University in 1985 and holds a bachelor degree in economics. He has many years of experience in the investment, trading and financial field in Hong Kong. He has held senior management positions in various large enterprises. He serves as financial controller of Guangdong Panyu Bridge Co., Ltd. and has extensive experienced in corporate management, project investment management and financial management.

SENIOR MANAGEMENT

Mr. Lai Ka Fai

Aged 36, is the Head of the Legal and Company Secretarial Department. He is a solicitor of the High Court of Hong Kong SAR and holds a bachelor of laws degree and a master degree in business administration. Mr. Lai joined the Group in January 2003.

Mr. Ma Chi Un, Fred

Aged 35, was the financial controller of the Group. He holds a bachelor degree in economics from the Wharton School of University of Pennsylvania in the United States. Mr. Ma has extensive experience in financial and investment industry both in the PRC and Hong Kong. Mr. Ma joined the Group in January 2003 and resigned from the Group in August 2006.

Ms. Chan Yuet Kwai

Aged 43, is the financial controller of the Group. Ms. Chan is a fellow member of both Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, a member of American Institute of Certified Public Accountants and a certified public accountant of Washington States in United States. She also holds a master degree in business administration. Ms. Chan has over 20 years experience in the fields of auditing, accounting and finance. Before joining the Group, She had served as financial controller of Hong Kong listed companies for over 13 years. Ms. Chan joined the Group in June 2006.

CORPORATE GOVERNANCE REPORT

The Group has been committed to maintaining high standards of corporate governance and continued to uphold a good, solid and sensible framework of corporate governance. The Board considers such commitment is essential for the internal management, financial management, balance of business risk and protection of shareholders' interest.

The Group truly believe that a sound corporate governance bases itself upon accountability system, information disclosure and corporate transparency. The Group acknowledges the importance to provide Shareholders with an open and highly transparent management. Apart from enhancing Shareholders' value and improving corporate earnings, sound corporate governance can also facilitate the steady development of the financial sector in Hong Kong.

In addition, sound corporate governance may also promote our communication with external parties, such that investors can understand more about our development potential and future prospects, to realize our investment value. The Group also believe that the procedures and systems under sound corporate governance can improve operational efficiency of the Group, such that all divisions or departments can enhance earnings of the Group through close and intimate communication.

The Group and the Board believe that sound corporate governance bases itself upon accountability system, timely information disclosure and effective mutual communication. As for internal management, systematic management and a comprehensive accountability system will enhance operational efficiency and strengthen profitability. Externally, sound corporate governance enables investors to fully capture the immense development potential and future development strategy for the Group for better understanding of the Group's investment value.

For the review year ended 31 December 2006, the Group has complied with the Code on Corporate Governance Practices (the "Corporate Governance Code") set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

In addition to the Audit Committee, the Group also established the Nomination Committee and Remuneration Committee. The Directors of the Company believe that the internal control system is comprehensive to ensure the Company and the Directors of the Company are in compliance with the responsibilities set out in the Listing Rules and the requirement of the relevant rules and regulations in Hong Kong.

THE BOARD

Responsibilities

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

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

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

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

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

Composition

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

The Board of the Company comprises the following Directors:

Executive Directors:

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

Non-executive Directors:

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

Independent non-executive Directors:

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

* Mr. WU Chun Wah, Michael resigned from the office as Executive Director on 10 February 2006.

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

During the year ended 31 December 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non–executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non–executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

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

Appointment and Succession Planning of Directors

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

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

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

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

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

In accordance with the Company's Articles of Association, Mr. Wang Hongxin, Mr. Gu Laiyun and Ms. Xu Zhen shall retire by rotation and being eligible, offer themselves for re-election at the Annual General Meeting ("AGM") of the Company to be held on 22 June 2007.

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

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

Training for Directors

There was no Director newly appointed during the year ended 31 December 2006. In case there is any newly appointed Director, he/she will be provided an induction materials so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and the relevant regulatory requirements.

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

Board Meetings

Number of Meetings and Directors' Attendance

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

During the year ended 31 December 2006, seven Board meetings were held and four of which were regular Board meetings.

The individual attendance record of each Director at the meetings of the Board, Audit Committee and Remuneration Committee during the year ended 31 December 2006 is set out below:

	Attendance/Number of Meetings		
Name of Directors	**Board**	**Audit Committee**	**Remuneration Committee**
MA Zhengwu	5/7	Not applicable	1/1
ZHANG Guotong	7/7	Not applicable	1/1
WANG Hongxin	7/7	Not applicable	Not applicable
HONG Shuikun	6/7	2/2	Not applicable
XU Zhen	7/7	2/2	Not applicable
GU Laiyun	6/7	Not applicable	Not applicable
KWONG Che Keung, Gordon	6/7	2/2	1/1
TSUI Yiu Wa, Alec	7/7	2/2	1/1
LAO Youan	6/7	2/2	1/1
WU Chun Wah, Michael*	Not applicable	Not applicable	Not applicable

* Mr. Wu Chun Wah, Michael resigned from the office as Executive Director on 10 February 2006. During the period from 1 January 2006 to 10 February 2006, no meeting of the Board was held.

Practices and Conduct of Meetings

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

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

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

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

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND MANAGING DIRECTOR

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

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

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

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees kept in the Company and are available to shareholders upon request. The majority of the members of each Board committees are independent non-executive Directors and the list of the Chairman and members of each Board committee is set out in this report on page 13.

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

Audit Committee

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

The main duties of the Audit Committee include the following:

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

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

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

The Audit Committee held two meetings during the year ended 31 December 2006 to review the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors.

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

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

The Company's annual results for the year ended 31 December 2006 have been reviewed by the Audit Committee.

Remuneration Committee

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

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

The Remuneration Committee meet once during the year ended 31 December 2006 and reviewed the existing remuneration policy and structure of the Company and remuneration packages of the Directors and the senior management.

Nomination Committee

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

MODEL CODE FOR SECURITIES TRANSACTIONS

In the year ended 31 December 2006, the Company has adopted its own code of conduct regarding Directors' securities transactions (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the requirements of the Code of Conduct and the Model Code throughout the year ended 31 December 2006.

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

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 24.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2006 amounted to HK$1,280,000 and HK$491,000 respectively. An analysis of the remuneration paid to the external auditors of the Company is set out below:

	Amount of Fee Payable/Paid *(HK$'000)*
Audit Services	1,280
Review on interim results	250
Other non-audit services	241
Total	1,771

INTERNAL CONTROLS

One of the duties of the Board is to ensure the Group's sound and effective internal control system to safeguard the shareholders' investment and the Group's assets. The Board is responsible for the Group's systems of internal controls and for reviewing its effectiveness through the Audit Committee. The Board requires management to establish and maintain sound and effective internal controls. Evaluation of the Group's internal controls is independently conducted by the Audit Committee. Such evaluation covers all material controls, including financial, operational and compliance controls and risk management functions. Management will report to the Audit Committee every year on significant findings on internal controls. Copy of the minutes of the Audit Committee meeting will also be sent to the Board for information.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

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

DIRECTOR'S REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 25.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

SHARE CAPITAL

Details of share capital of the Company are set out in note 33 to the financial statements.

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

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company had no distributable reserves, calculated in accordance with Section 79B of the Companies Ordinance.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover attributable to the five largest customers represented 10.13% of the Group's total turnover. Sales to the largest customer included therein amounted to 4.10%.

During the year, the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the five largest suppliers represented 30.58% of the Group's total purchases. Purchases from the largest supplier amounted to 16.53% of the Group's total purchases.

None of the directors of the Company or any of their associates or any shareholders, which to the best knowledge of the Company's directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or suppliers for the year ended 31 December 2006.

DIRECTOR'S REPORT

DIRECTORS

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

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

In accordance with Article 105 of the Company's Articles of Association, Messrs. Wang Hongxin, Gu Laiyun and Ms. Xu Zhen retire by rotation and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

	Date of grant	Exercisable period	Exercise price *HK$*	Number of shares: At 1 January 2006	Granted during the year	Lapsed during the year	Exercised during the year	At 31 December 2006	Aggregate long position in underlying shares to issued share capital of the Company %
Directors									
Ma Zhengwu	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	–	–	1,200,000	0.06
Zhang Gutong	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	–	–	1,200,000	0.21
	28.9.2004	29.9.2005 to 28.9.2008	0.245	3,000,000	–	–	–	3,000,000	
Wu Chun Wah, Michael (resigned on 10 February 2006)	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	(1,200,000)	–	–	–
	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	0.06
Gu Laiyun	8.3.2004	9.3.2005 to 8.3.2009	0.364	1,200,000	–	–	–	1,200,000	0.16
	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	0.03
				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	–	(1,000,000)	(600,000)	10,650,000	
	28.9.2004	29.9.2005 to 28.9.2008	0.245	23,050,000	–	–	(3,800,000)	19,250,000	
				35,300,000	–	(1,000,000)	(4,400,000)	29,900,000	1.48
Total				49,900,000	–	(5,200,000)	(4,400,000)	40,300,000	

All the interests stated above represent long positions. As at 31 December 2006, no short positions were recorded in the Register of Directors' and Chief Executive's Interests and Short Positions required to be kept under Section 352 of Part XV of the Securities and Futures Ordinance (the "SFO").

Save as disclosed above, as at 31 December 2006, none of the directors or Chief Executives of the Company nor their spouses or children under 18 years of age were granted, or had exercised, any rights to subscribe for any equity or debt securities of the Company or any of its Associated Corporations.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2006, the Register of Interests and Short Positions in Shares and Underlying Shares maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the shares and underlying shares of the Company:

Name of shareholder	Capacity	Number of shares	Percentage of issued share capital of the Company
World Gain Holdings Limited	Controlled corporation *(note)*	608,201,500	30%
China Chengtong Hong Kong Company Limited	Controlled corporation *(note)*	608,201,500	30%
China Chengtong Holdings Group Limited	Beneficial owner	608,201,500	30%

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

All the interests stated above represent long position. As at 31 December 2006, no short positions were recorded in the Register of Interests and Short Positions in Shares and Underlying Shares required to be kept under Section 336 of the SFO.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2006.

DISCLOSURE PURSUANT TO THE LISTING RULES

As at 31 December 2006, the aggregate amount of advances made by the Group to its associate was approximately HK$149,691,000. Particulars of these advances are set out in note 17 to the financial statements.

The balance sheet of the associate, Goodwill (Overseas) Limited as at 31 December 2006 disclosed in accordance with 13.22 of Chapter 13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") is as follows:

	HK$'000
Non-current assets	457,651
Current assets	23
Current liabilities	(578)
Net current liabilities	(555)
Non-current liabilities	
Shareholders' loans	(460,505)
Net liabilities	(3,409)

CONNECTED TRANSACTION

On 20 April 2006, Zhongshi Investment Company Limited 中實投資有限責任公司, a 70% owned subsidiary of the Group, made a short term loan ("Short Term Loan") of RMB1.3 million (about HK$1.3 million) to Beijing Xinghe Dongli Investment Management Co. Limited 北京興合動力投資管理有限公司 ("Beijing Xinghe") which bears interest at 6% per annum and is repayable within six months from the date of borrowing. The repayment of the principal of the Short Term Loan of RMB1.3 million and interest in the amount of RMB18,000 (about HK$17,640) were received on 19 July 2006.

Beijing Xinghe is the minority shareholder of Zhongshi Investment Company Limited. Accordingly, the Short Term Loan constituted a connected transaction of the Company under the Listing Rules.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 39 to the financial statements.

FINANCIAL SUMMARY

A summary of the Group's results and its assets and liabilities for the year ended 31 December 2006 and the past four financial years is set out on page 72.

AUDITORS

The financial statements of the Company for the year ended 31 December 2006 were audited by Messrs. Deloitte Touche Tohmatsu.

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

On behalf of the Board

MA ZHENGWU
CHAIRMAN

Hong Kong
30 March 2007

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of China Chengtong Development Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 70, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Continuing operations			
Turnover	5	247,263	114,053
Cost of sales		(185,444)	(102,351)
Gross profit		61,819	11,702
Other income	6	9,123	6,940
Selling expenses		(6,655)	(5,457)
Administrative expenses		(19,722)	(23,322)
Decrease in fair value of an investment property	15	(1,782)	–
Provision for a legal claim	26	–	(8,698)
Finance costs	7	(140)	(10)
Share of results of associates		1	(1)
Share of results of a jointly controlled entity		(728)	–
Profit (loss) before taxation		41,916	(18,846)
Taxation	8	(17,424)	(3,359)
Profit (loss) for the year from continuing operations		24,492	(22,205)
Discontinued operations			
Loss for the year from discontinued operations	9	(1,853)	(31,480)
Profit (loss) for the year	10	22,639	(53,685)
Attributable to:			
Shareholders of the Company		15,953	(45,997)
Minority interests		6,686	(7,688)
		22,639	(53,685)
Earnings (loss) per share	12		
From continuing and discontinued operations			
– Basic		HK0.88 cent	HK(2.73) cents
– Diluted		HK0.88 cent	N/A
From continuing operations			
– Basic		HK0.98 cent	HK(0.86) cent
– Diluted		HK0.98 cent	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	14	1,404	55,650
Investment properties	15	45,000	86,400
Interests in associates	17	264	263
Amount due from an associate	17	148,605	–
Interest in a jointly controlled entity	18	99,740	–
		295,013	142,313
Current assets			
Inventories	19	–	4,536
Properties held for sale		50,415	230,162
Trade and other receivables	20	7,769	31,784
Bills receivable		–	144
Tax recoverable		–	2,414
Amount due from a minority shareholder of a subsidiary	21	–	1,359
Amounts due from related companies	22	4,507	5,282
Restricted bank balance	23	4,200	–
Bank balances and cash	24	117,372	115,058
		184,263	390,739
Assets classified as held for sale	9	50,483	161,080
		234,746	551,819
Current liabilities			
Trade and other payables	25	59,470	128,391
Deposits received on sale of properties		1,055	189,435
Provision for a legal claim	26	–	41,490
Loan from a related company	27	–	15,000
Amount due to a minority shareholder of a subsidiary	28	3,978	3,978
Tax payable		17,347	–
Unsecured other loans	29	7,196	7,196
Secured other loan	30	–	17,616
		89,046	403,106
Liabilities associated with assets classified as held for sale	9	35,721	–
		124,767	403,106
Net current assets		109,979	148,713
Total assets less current liabilities		404,992	291,026
Non-current liabilities			
Deferred taxation	31	3,937	5,694
Net assets		401,055	285,332

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Capital and reserves			
Share capital	33	202,350	168,710
Reserves		170,462	84,356
Equity attributable to shareholders of the Company		372,812	253,066
Minority interests		28,243	32,266
		401,055	285,332

The financial statements on pages 25 to 70 were approved and authorised for issue by the Board of Directors on 30 March 2007 and are signed on its behalf by:

Zhang Guotong
DIRECTOR

Wang Hongxin
DIRECTOR

BALANCE SHEET

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	14	882	61
Interests in subsidiaries	16	1	1
Amount due from a group associate	17	517	–
		1,400	62
Current assets			
Other receivables		1,258	621
Amounts due from subsidiaries	32	311,785	260,548
Bank balances and cash		133	227
		313,176	261,396
Assets classified as held for sale	9	–	517
		313,176	261,913
Current liabilities			
Other payables		7,062	6,081
Amounts due to subsidiaries	32	57,317	81,739
		64,379	87,820
Net current assets		248,797	174,093
		250,197	174,155
Capital and reserves			
Share capital	33	202,350	168,710
Reserves	35	47,847	5,445
		250,197	174,155

Zhang Guotong
DIRECTOR

Wang Hongxin
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to shareholders of the Company										
	Share capital	**Share premium**	**Capital re-demption reserve**	**Special capital reserve**	**Exchange reserve**	**Legal surplus**	**Share options reserve**	**Accu-mulated (losses) profits**	**Total**	**Minority interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(note)*	*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 recognised directly in equity	–	–	–	–	1,652	–	–	–	1,652	592	2,244
Loss for the year	–	–	–	–	–	–	–	(45,997)	(45,997)	(7,688)	(53,685)
Total recognised income (expense) 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
Exchange realignment	–	–	–	–	4,813	–	–	–	4,813	1,247	6,060
Share of changes in equity in a jointly controlled entity recognised directly in equity	–	–	–	–	(111)	–	–	–	(111)	–	(111)
Net income recognised directly in equity	–	–	–	–	4,702	–	–	–	4,702	1,247	5,949
Profit for the year	–	–	–	–	–	–	–	15,953	15,953	6,686	22,639
Total recognised income for the year	–	–	–	–	4,702	–	–	15,953	20,655	7,933	28,588
Capital Reduction (note)	–	(939,273)	–	965	–	–	–	938,308	–	–	–
Issue of new shares	33,200	66,400	–	–	–	–	–	–	99,600	–	99,600
Transaction costs attributable to issue of new shares	–	(694)	–	(965)	–	–	–	–	(1,659)	–	(1,659)
Issue of shares upon exercise of share options	440	1,439	–	–	–	–	(729)	–	1,150	–	1,150
Share option forfeited	–	–	–	–	–	–	(916)	916	–	–	–
Dividend paid to minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	(11,956)	(11,956)
At 31 December 2006	202,350	67,145	402	–	6,638	565	7,066	88,646	372,812	28,243	401,055

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, the Company creates 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 purpose 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. During the year ended 31 December 2006, the Special Capital Reserve is applied to set off with the transaction cost attributable to the issue of new shares.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	2006 *HK$'000*	2005 *HK$'000*
Cash flows from operating activities		
Profit (loss) before taxation	40,063	(50,314)
Adjustments for:		
Interest income	(2,889)	(1,882)
Interest expense	1,210	1,407
Increase in provision for a legal claim	–	8,698
Share of results of associates	(1)	1
Share of results of a jointly controlled entity	728	–
Expenses recognised in respect of share options granted	–	4,392
Loss on disposal of property, plant and equipment	4,811	1,009
Depreciation of property, plant and equipment	3,524	3,217
Decrease in fair value of an investment property	1,782	–
Impairment loss recognised in respect of property, plant and equipment	7,840	23,781
Gain on waiver of secured other loan and interest	(14,842)	–
Operating cash flows before working capital changes	42,226	(9,691)
(Increase) decrease in inventories	(655)	4,578
Increase in properties under development	–	(6,888)
Decrease in properties held for sale	179,747	–
Decrease (increase) in trade and other receivables	17,409	(12,793)
(Increase) decrease in bills receivable	(856)	695
Increase in amount due from a minority shareholder of a subsidiary	(57)	(22)
Decrease in trade and other payables	(37,778)	(20,986)
(Decrease) increase in deposits received on sale of properties	(188,380)	170,279
Cash flows from operations	11,656	125,172
Hong Kong Profits Tax refunded (paid)	284	(298)
PRC Enterprise Income Tax paid	–	(6,398)
Net cash flows from operating activities	11,940	118,476
Cash flows from investing activities		
Acquisition of investment in a jointly controlled entity	(26,594)	–
Capital contribution to a jointly controlled entity	(71,580)	–
Increase in restricted bank balance	(4,200)	–
Repayment from (advance to) related companies	775	(262)
Proceeds from disposals of property, plant and equipment	6,097	2,551
Purchases of property, plant and equipment	(1,244)	(7,830)
Repayment of amount due from an associate	12,475	13,752
Interest received	2,889	2,502
Net cash (used in) from investing activities	(81,382)	10,713

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	2006 *HK$'000*	2005 *HK$'000*
Cash flows from financing activities		
Dividend paid to a minority shareholder of a subsidiary	(11,956)	–
Proceeds from issue of new shares (net of expenses)	99,091	–
Repayment of loan from a related company	(15,000)	–
Repayment of bank loans	–	(94,300)
Interest paid	(140)	(5,583)
Net cash from (used in) financing activities	71,995	(99,883)
Net increase in cash and cash equivalents	2,553	29,306
Cash and cash equivalents at beginning of year	115,058	86,082
Effect of foreign exchange rate changes	928	(330)
Cash and cash equivalents at end of year, representing bank balances and cash	118,539	115,058

1. GENERAL

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

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

The financial statements are presented in Hong Kong dollars and the functional currency of the Company is Renminbi. The Company uses Hong Kong dollars as its presentation currency because the Company is a public company incorporated in Hong Kong with its shares listed on the Stock Exchange.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"s), Hong Kong Accounting Standards ("HKAS"s) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application 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.

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

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segment[2]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions[7]
HK(IFRIC) – INT 12	Service concession arrangement[8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, except for investment properties which are stated at fair values, as explained in the principal accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In additions, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Revenue recognition

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

Investment properties

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

Property, plant and equipment

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

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

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

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

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

Subsidiaries

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

Investments in associates

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in a jointly controlled entity

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.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. An impairment loss identified is recognised and is allocated first to goodwill.

Non-current assets held for sale

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Properties held for sales

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

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Financial instruments

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

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

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

Financial liabilities and equity

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

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

Financial liabilities

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

Equity instruments

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

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or the assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in accumulated profits.

Provisions

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

Retirement benefits costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to the participants of the share options schemes

Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. However, the Group is still required to apply HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005.

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

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, bank balances, bills receivable, amount due from a minority shareholder/an associate/related companies, trade and other payables, loan from a related company, amount due to a minority shareholder and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

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

The Group currently does not have any risk hedging policy. However, the management monitors interest rate risk exposure and will consider implementing appropriate measures when significant interest rate exposure is anticipated.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and amounts due from an associate. The maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade debt and amount due from an associate at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The Group has no significant concentration of credit risk with exposure spread over a number of counterparties and customers.

5. SEGMENT INFORMATION

Business Segments

The Group's principal activities are trade and manufacture of cement, trade of goods, property investment and property development. These four business segments are the basis on which the Group reports its primary segment information. During the year, the Group had discontinued the trade of goods business and signed an agreement to transfer all of the Group's interest in the trade and manufacture of cement business (see note 9). Accordingly, the businesses of trade and manufacture of cement and trade of goods are classified as discontinued operations. Segment information about the Group's businesses is presented as below:

	Continuing operations				Discontinued operations				
	Property investment	Property development	Unallocated	Total	Trade and manufacture of cement	Trade of goods	Unallocated	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*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	–	–	–	–	1
Share of results of jointly controlled entity	–	(728)	–	(728)	–	–	–	–	(728)
Unallocated other income	–	–	6,241	6,241	–	–	14,849	14,849	21,090
Unallocated corporate expenses	–	–	(17,210)	(17,210)	–	–	(2)	(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)

5. SEGMENT INFORMATION (continued)

Business Segments (continued)

	Continuing operations		Discontinued operations		
	Property investment	Property development	Trade and manufacture of cement	Trade of goods	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2006					
Balance sheet					
Assets					
Segment assets	45,309	122,140	50,483	546	218,478
Interests in associates					148,869
Interest in a jointly controlled entity					99,740
Unallocated corporate assets					62,672
Consolidated total assets					529,759
Liabilities					
Segment liabilities	(7,069)	(41,171)	(26,721)	(11)	(74,972)
Unallocated corporate liabilities					(53,732)
Consolidated total liabilities					(128,704)

5. SEGMENT INFORMATION (continued)

Business Segments (continued)

	Continuing operations				Discontinued operations				
	Property investment	**Property development**	**Unallocated**	**Total**	**Trade and manufacture of cement**	**Trade of goods**	**Unallocated**	**Total**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2005									
Turnover									
Segment turnover	–	114,053	–	114,053	46,458	93,261	–	139,719	253,772
Result									
Segment result	(10,286)	7,014	–	(3,272)	(30,070)	3	–	(30,067)	(33,339)
Share of results of associates	–	–	(1)	(1)	–	–	–	–	(1)
Unallocated other income	–	–	3,407	3,407	–	–	5	5	3,412
Unallocated corporate expenses	–	–	(18,970)	(18,970)	–	–	(9)	(9)	(18,979)
Finance costs				(10)				(1,397)	(1,407)
Loss before taxation				(18,846)				(31,468)	(50,314)
Taxation				(3,359)				(12)	(3,371)
Loss for the year				(22,205)				(31,480)	(53,685)
Other information									
Additions of property, plant and equipment	–	97	2	99	7,731	–	–	7,731	7,830
Impairment loss on property, plant and equipment	–	–	–	–	(23,781)	–	–	(23,781)	(23,781)
Depreciation of property, plant and equipment	–	(90)	(273)	(363)	(2,854)	–	–	(2,854)	(3,217)
Loss on disposal of property, plant and equipment	–	(23)	–	(23)	(986)	–	–	(986)	(1,009)
Provision for a legal claim	(8,698)	–	–	(8,698)	–	–	–	–	(8,698)
Share-based payment	–	–	(4,392)	(4,392)	–	–	–	–	(4,392)

5. SEGMENT INFORMATION (continued)

Business Segments (continued)

	Continuing operations		Discontinued operations		
	Property investment	**Property development**	**Trade and manufacture of cement**	**Trade of goods**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2005					
Balance sheet					
Assets					
Segment assets	84,870	332,453	62,260	601	480,184
Interests in associates					263
Unallocated corporate assets					213,685
Consolidated total assets					694,132
Liabilities					
Segment liabilities	(48,968)	(251,893)	(30,605)	(8)	(331,474)
Unallocated corporate liabilities					(77,326)
Consolidated total liabilities					(408,800)

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:

	Turnover by geographical market	
	2006	**2005**
	HK$'000	*HK$'000*
Mainland China	291,414	160,511
Hong Kong	–	93,261
	291,414	253,772

5. SEGMENT INFORMATION (continued)

Geographical Segments (continued)

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

	2006	**2005**
	HK$'000	*HK$'000*
Carrying amount of segment assets		
Mainland China	217,932	479,583
Hong Kong	546	601
	218,478	480,184
Additions to property, plant and equipment		
Mainland China	289	7,828
Hong Kong	955	2
	1,244	7,830

6. OTHER INCOME

	2006	**2005**
	HK$'000	*HK$'000*
Gain on securities trading	1,486	508
Interest Income	2,882	1,877
Overprovision in a legal claim in prior years	1,028	–
Rental Income	912	913
Gain on waiver of salaries of ex-directors and staff	–	1,117
Others	2,815	2,525
	9,123	6,940

7. FINANCE COSTS

	Continuing operations 2006	Continuing operations 2005	Discontinued operations 2006	Discontinued operations 2005	Consolidated 2006	Consolidated 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest on:						
Bank and other borrowings wholly repayable within five years	140	4,186	1,070	1,397	1,210	5,583
Less: Amount capitalised in the cost of properties held for sales	–	(4,176)	–	–	–	(4,176)
	140	10	1,070	1,397	1,210	1,407

8. TAXATION

Hong Kong Profits Tax is provided at 17.5% (2005: 17.5%) on the estimated assessable profits for the year. PRC Enterprise Income Tax is provided at 33% (2005: 24%) on the estimated assessable profits for the year.

	Continuing operations 2006	Continuing operations 2005	Discontinued operations 2006	Discontinued operations 2005	Consolidated 2006	Consolidated 2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The taxation charge comprises:						
Current tax:						
PRC	19,465	3,334	–	–	19,465	3,334
(Over) underprovision in prior years:						
Hong Kong	(284)	285	–	12	(284)	297
PRC	–	645	–	–	–	645
	(284)	930	–	12	(284)	942
	19,181	4,264	–	12	19,181	4,276
Deferred taxation (note 31)	(1,757)	(905)	–	–	(1,757)	(905)
Taxation charge for the year	17,424	3,359	–	12	17,424	3,371

8. TAXATION (continued)

A statement of reconciliation of taxation is as follows:

	2006 HK$'000	2005 HK$'000
Profit (loss) before taxation		
Continuing operations	41,916	(18,846)
Discontinued operations	(1,853)	(31,468)
	40,063	(50,314)
Domestic tax at the PRC Enterprise Income Tax rate of 33% (2005: 24%)	13,221	(12,076)
Tax effect of expenses not deductible for tax purposes	5,585	7,979
Tax effect of income not taxable for tax purposes	(1,518)	(444)
Tax effect of tax losses not recognised	5,460	5,690
Tax effect on utilisation of tax losses previously not recognised	(5,040)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	1,280
(Over)underprovision in prior years	(284)	942
Taxation charge for the year	17,424	3,371

The domestic tax rate changed from 24% to 33% during the current year as the major profit making units of the Group are situated at locations where 33% is the domestic tax rate.

9. DISCONTINUED OPERATIONS

Discontinued trade of goods business

During the year, the directors of the Company decided to cease the trade of goods business. The operating result is therefore classified as discontinued operations.

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

Plan to transfer the trade and manufacture of cement business for 20% equity interest in a newly established joint venture company

On 12 October 2006, the Group entered into an agreement with an independent third party (the "JV Agreement") to establish CIMPOR Chengtong Cement Corporation Limited (the "CIMPOR JV Company"), a company incorporated in Hong Kong with limited liability, which the Group is and will be holding a 20% interest. The Group will contribute its 20% interest in the CIMPOR JV Company by the transfer all of its interest in Sea-Land Mining Limited ("Sea-Land"), a wholly owned subsidiary of the Company, to the CIMPOR JV Company pursuant to the terms of an agreement entered into on the same date of the JV Agreement (the "Sea-Land Group Sale Agreement") .

Details of the JV Agreement and the Sea-Land Group Sale Agreement are set out in the circular of the Company dated 8 November 2006.

Sea-Land and its subsidiary, 蘇州南達水泥有限公司 ("Suzhou Nanda") , carried out all of the Group's operation on the trade and manufacture of cement.

9. DISCONTINUED OPERATIONS (continued)

Plan to transfer the trade and manufacture of cement business for 20% equity interest in a newly established joint venture company (continued)

As at 31 December 2006, the conditions of the JV Agreement and Sea-Land Group Sale Agreement were not wholly satisfied and the directors of the Company are of the opinion that those conditions will be complied with on or prior to 30 June 2007.

The results of the trade of goods and trade and manufacture of cement business for the year, which have been included in the consolidated income statement, were as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Loss for the year from discontinued operations		
Turnover	44,151	139,719
Other income	1,003	489
Gain on waiver of secured other loan and interests *(note 30)*	14,842	–
Cost of sales	(41,913)	(140,836)
Selling expenses	(1,051)	(1,129)
Administrative expenses	(17,815)	(28,314)
Finance costs	(1,070)	(1,397)
Taxation	–	(12)
Loss for the year from discontinued operations	(1,853)	(31,480)
Cash flows for the year from discontinued operations		
Net cash flows from operating activities	(4,670)	5,373
Net cash flows from investing activities	5,699	(5,180)
Net cash flows from financing activities	–	(1,397)
Effect of foreign exchange rate changes	(228)	45
Net cash flows	801	(1,159)

9. DISCONTINUED OPERATIONS (continued)

Plan to transfer the trade and manufacture of cement business for 20% equity interest in a newly established joint venture company (continued)

The assets and liabilities attributable to the trade and manufacture of cement business, which are expected to be sold by 30 June 2007, have been classified as assets held for sale and liabilities associated with assets classified as held for sales and are presented separately in the consolidated balance sheet. The carrying amounts of the major classes of assets and liabilities as at 31 December 2006, which have been presented separately in the consolidated balance sheet, are as follows:

	2006
	HK$'000
Property, plant and equipment	35,103
Inventories	5,191
Trade and other receivables	6,606
Bills receivable	1,000
Amount due from a minority shareholder	1,416
Bank balances and cash	1,167
Assets classified as held for sale	50,483
Trade and other payables	(26,721)
Secured other loan	(9,000)
Liabilities associated with assets classified as held for sale	(35,721)
Net assets classified as held for sale	14,762

Repudiation of plan to dispose of interest in an associate

As at 31 December 2005, the directors of the Company decided to dispose of the interest in an associate, Goodwill (Overseas) Limited ("Goodwill"). 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 Group's entire 32% equity interest of Goodwill and the related loan advanced by the Group to Goodwill at a consideration of US$24,701,754 (equivalent to HK$192,674,000).

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

During the year ended 31 December 2006, the Disposal has fallen through by reason of repudiation of the Disposal Agreement by the Purchaser. Therefore, the interest in an associate, Goodwill, is no longer classified as assets classified as held for sale. Details of the repudiation are set out in the Company's announcement dated 24 November 2006.

9. DISCONTINUED OPERATIONS (continued)

Repudiation of plan to dispose of interest in an associate (continued)

The carrying amounts of the interest in Goodwill at 31 December 2005, which have been presented as assets held for sale in the consolidated balance sheet, are as follows:

	2005
	HK$'000
Amount due from an associate	162,166
Less: Allowance for doubtful debt	(1,086)
	161,080

10. PROFIT (LOSS) FOR THE YEAR

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit (loss) for the year is arrived at after charging:						
Auditors' remuneration						
Current year	1,530	1,550	–	–	1,530	1,550
Overprovision in prior years	(28)	(120)	–	–	(28)	(120)
	1,502	1,430	–	–	1,502	1,430
Depreciation of property, plant and equipment	382	273	3,142	2,854	3,524	3,127
Impairment loss on property, plant and equipment (included in administrative expenses)	–	–	7,840	23,781	7,840	23,781
Loss on disposal of property, plant and equipment	766	23	4,045	986	4,811	1,009
Minimum lease payments in respect of rented premises	2,108	1,610	74	–	2,182	1,610
Contributions to retirement benefits schemes (including directors' emoluments)	250	297	777	1,261	1,027	1,558
Other staff costs (including directors' emoluments)	8,024	12,648	3,120	4,696	11,144	17,344
Cost of inventories recognised as an expense	185,444	102,351	41,913	140,836	227,357	243,187
and after crediting:						
Gross rental income from investment properties, net of negligible outgoings	912	913	309	96	1,221	1,009
Interest income excluding interest income on the temporary investment of specific borrowings of Nil (2005: HK$620,000) which has been capitalised in properties under development	2,882	1,877	7	5	2,889	1,882
Gain on waiver of secured other loan and interest (note 30)	–	–	14,842	–	14,842	–

10. PROFIT (LOSS) FOR THE YEAR (continued)

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

	Continuing operations		Discontinued operations		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other staff costs	–	3,319	–	–	–	3,319
Depreciation of property, plant and equipment	–	90	–	–	–	90
Minimum lease payments in respect of rented premises	–	654	–	–	–	654

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 10 (2005: 11) directors were as follows:

	Zhang Guotong	Wu Chun Wah, Michael (resigned on 10.2.2006)	Wang Hongxin	Xu Zhen	Ma Zhengwu	Gu Laiyun	Hong Shuikun	Kwong Chekeung	Tsui Yiuwa	Lao Youan	Total 2006
	HK'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fee	940	283	630	240	360	507	240	360	360	240	4,160
Contributions to retirement benefits schemes	35	11	20	–	–	–	–	–	–	–	66
Total emoluments	975	294	650	240	360	507	240	360	360	240	4,226

	Zhang Guotong	Wu Chun Wah, Michael (resigned on 10.2.2006)	Wang Hongxin	Xu Zhen	Ma Zhengwu	Gu Laiyun	Hong Shuikun	Kwong Chekeung	Tsui Yiuwa	Lao Youan	Chen Shengjie	Total 2005
	HK'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fee	1,018	1,610	465	182	240	240	240	360	360	180	60	4,955
Contributions to retirement benefits schemes	51	80	–	–	–	–	–	–	–	–	–	131
Share-based payments	402	402	–	22	43	282	43	–	–	–	–	1,194
Total emoluments	1,471	2,092	465	204	283	522	283	360	360	180	60	6,280

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

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2005: two) directors of the Company whose emoluments are included in (a) above. The emoluments of the remaining three (2005: three) individuals were as follows:

	2006 *HK$'000*	**2005** *HK$'000*
Salaries and other benefits	2,062	1,557
Contributions to retirement benefits schemes	103	78
	2,165	1,635

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

	2006 Number of employees	**2005 Number of employees**
Nil to HK$1,000,000	3	3

12. 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:

	2006 *HK$'000*	**2005** *HK$'000*
Profit (loss) for the year and earnings (loss) for the purposes of basic and diluted earnings (loss) per share	15,953	(45,997)

	Number of shares	
	2006	**2005**
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,811,270,036	1,687,104,968
Effect of dilutive potential ordinary shares in respect of share options	9,581,665	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,820,904,484	N/A

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

12. EARNINGS (LOSS) PER SHARE (continued)

From continuing operations

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

Earnings (loss) figures are calculated as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Profit (loss) for the year and earnings (loss) for the purposes of basic and diluted earnings (loss) per share	15,953	(45,997)
Add: Loss for the year from discontinued operations	1,853	31,480
Profit (loss) for the year and earnings (loss) for the purposes of basic and diluted earnings (loss) per share from continuing operations	17,806	(14,517)

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

From discontinued operations

Basic loss per share for discontinued operations is HK0.10 cent per share (2005: HK1.87 cent per share). For both years, no diluted loss per share for discontinued operations has been presented because the exercise of share options will be anti-dilutive.

13. RETIREMENT BENEFITS SCHEMES

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

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

During the year ended 31 December 2006, contributions totalling of HK$1,027,000 (2005: HK$1,558,000) were paid by the Group.

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings	Plant and machinery	Furniture and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2005	78,156	78,520	13,303	4,302	20,073	194,354
Currency realignment	1,266	1,416	12	61	362	3,117
Additions	3,023	434	111	–	4,262	7,830
Transfer	14,237	10,460	–	–	(24,697)	–
Disposals	(9,303)	(640)	(26)	(782)	–	(10,751)
At 31 December 2005	87,379	90,190	13,400	3,581	–	194,550
Currency realignment	2,512	2,899	33	88	–	5,532
Additions	196	15	1,033	–	–	1,244
Disposals	(53,289)	(46,965)	(1,534)	(1,087)	–	(102,875)
Reclassified as held for sale	(36,798)	(46,139)	(681)	(1,314)	–	(84,932)
At 31 December 2006	–	–	12,251	1,268	–	13,519
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2005	38,228	63,987	11,718	3,399	–	117,332
Currency realignment	546	1,162	10	43	–	1,761
Provided for the year	1,359	1,211	196	451	–	3,217
Eliminated on disposals	(5,881)	(581)	(4)	(725)	–	(7,191)
Impairment loss recognised in income statement	9,166	14,615	–	–	–	23,781
At 31 December 2005	43,418	80,394	11,920	3,168	–	138,900
Currency realignment	1,014	2,533	24	76	–	3,647
Provided for the year	1,289	1,625	411	199	–	3,524
Eliminated on disposals	(44,686)	(45,458)	(742)	(1,081)	–	(91,967)
Impairment loss recognised in income statement	4,390	3,450	–	–	–	7,840
Reclassified as held for sale	(5,425)	(42,544)	(558)	(1,302)	–	(49,829)
At 31 December 2006	–	–	11,055	1,060	–	12,115
NET BOOK VALUES						
At 31 December 2006	–	–	1,196	208	–	1,404
At 31 December 2005	43,961	9,796	1,480	413	–	55,650

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The directors of the Company have met the county government of Wen Ting County, Suzhou, the PRC and obtained written notice for the usage right of a piece of land located at Wen Ting County. However, the State Land Bureau has yet to give its approval to the Group's title to this piece of land, held through a 71% owned subsidiary (with the remaining 29% held by a PRC joint venture partner), on which buildings with net book value of HK$31,373,000 in assets classified as held for sale (2005: HK$43,961,000) have been erected. It is the responsibility of the PRC joint venture partner to ensure that the appropriate land use right certificate is obtained and they have confirmed to the Group that they are in the process of obtaining the land use right certificate from the State Land Bureau.

Certain plant and machinery with an aggregate net book value of HK$3,595,000 included in assets classified as held for sales (2005: HK$9,378,000) have been pledged as securities for the Group's other loans (note 30).

During the year, the directors of the Company conducted a review of certain of the Group's manufacturing assets and determined that a number of those assets were fully impaired, due to physical damage and technical obsolescence. Accordingly, full impairment losses of HK$4,390,000 (2005: HK$9,166,000) and HK$3,450,000 (2005: HK$14,615,000) respectively have been recognised in respect of buildings and plant and machinery.

THE COMPANY

	Furniture and equipment *HK$'000*
COST	
At 1 January 2005 and 1 January 2006	353
Additions	934
Disposals	(353)
At 31 December 2006	934
ACCUMULATED DEPRECIATION	
At 1 January 2005	266
Provided for the year	26
At 31 December 2005	292
Provided for the year	65
Disposals	(305)
At 31 December 2006	52
NET BOOK VALUE	
At 31 December 2006	882
At 31 December 2005	61

15. INVESTMENT PROPERTIES

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
FAIR VALUE		
At beginning of year	86,400	84,870
Transfer of investment properties (Note)	(41,490)	–
Decrease in fair value	(1,782)	–
Currency realignment	1,872	1,530
At end of year	45,000	86,400
Analysed by lease term and geographical location:		
Medium term leasehold properties situated in Mainland China	45,000	86,400

Note: During the year, a portion of the investment properties was transferred to the plaintiff of a legal claim. Details of this are set out in note 26.

The fair value of the Group's investment properties at 31 December 2006 was arrived at on the basis of a valuation carried out on that date by S.H. Ng & Co., Ltd., independent qualified professional valuers not connected with the Group. S.H. Ng & Co., Ltd. are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

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

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2006	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at cost	1,001	1,001
Less: Impairment loss	(1,000)	(1,000)
	1	1

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at 31 December 2006 are as follows:

Company	Place of incorporation/ registration	Total paid-up and issued ordinary share/ registered capital	Equity interest owned by the Group %	Principal activities
Directly held:				
Galactic Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Investment holding
Key Asset Limited	Hong Kong	100 ordinary shares of HK$1 each	100	Investment holding
Merry World Associates Limited	British Virgin Islands ("BVI")	1 ordinary share of US$1	100	Property investment
Indirectly held:				
Boxhill Limited	BVI	1 ordinary share of US$1	100	Investment holding
Great Royal International Limited	Hong Kong	100 ordinary shares of HK$1 each	100	Investment holding
Price Sales Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100	Investment holding
Sea-Land	Hong Kong	1,000,000 ordinary shares of HK$10 each	100	Investment holding
Suzhou Nanda*	PRC	RMB101,262,000	71.03	Trade and manufacture of cement
中實投資有限責任公司* Zhongshi Investment Company Limited ("Zhongshi")	PRC	RMB80,000,000	70	Properties development

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

16. INTERESTS IN SUBSIDIARIES (continued)

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

None of the subsidiaries had any debt securities subsisting at 31 December 2006 or at any time during the year.

17. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM AN ASSOCIATE

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Share of net assets	264	263
Amounts due from an associate	149,691	–
Less: Allowance for doubtful receivables	(1,086)	–
	148,605	–

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

As at 31 December 2005, the Group's amounts due from Goodwill amounting to HK$161,080,000 (net of allowance for doubtful debt) were classified as held for sale (note 9).

As at 31 December 2006, the Company had an amount due from an associate of the Group of HK$517,000 which was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the Group's associates at 31 December 2006 are as follows:

Name of company	Class of shares held	Place of incorporation	Equity interest owned by the Group %	Principal activities
Goodwill	Ordinary	BVI	32	Investment holding
Success Project Investments Ltd.	Ordinary	BVI	35	Investment holding
CIMPOR JV Company	Ordinary	Hong Kong	20	Inactive

As at 31 December 2005, the Group's interests in Goodwill were classified as held for sale (note 9).

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

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

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Net assets	754	751
Group's share of associates' net assets	264	263
Revenue	–	–
Profit (loss) for the year	3	(2)
Group's share of profit (loss) of associates for the year (net of tax)	1	(1)

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Share of net assets	94,846	–
Goodwill on acquisition of a jointly controlled entity	4,894	–
	99,740	–

The principal investment in jointly controlled entity at 31 December 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).

Summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Non-current assets	32	–
Current assets	138,727	–
Current liabilities	(43,913)	–
Income	57	–
Expenses	(785)	–

19. INVENTORIES

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	3,120	3,540
Finished goods	2,071	996
	5,191	4,536
Classified as assets held for sale (see note 9)	(5,191)	–
	–	4,536

20. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Trade receivables	3,207	11,758
Prepayments and deposits	3,184	2,259
Other receivables	1,378	17,767
	7,769	31,784

Trade receivables

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

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Current	–	8,510
One to three months	–	128
Over three months	3,207	3,120
	3,207	11,758

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

21. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount was unsecured, interest-free and repayable on demand. The directors of the Company consider that the fair value at 31 December 2005 approximates to the carrying amount.

22. AMOUNTS DUE FROM RELATED COMPANIES

	THE GROUP		
	2006	**2005**	**Maximum amount outstanding during the year**
	HK$'000	*HK$'000*	*HK$'000*
Name of related companies			
中國物資開發投資總公司	3,900	4,621	4,621
China Chengtong Hong Kong Company Limited	–	100	100
Nardu Company Limited	177	125	177
Panyu Lucky Rich Real-Estates Development Limited	430	430	430
Tat Yeung Investments Limited	–	6	6
	4,507	5,282	

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, a holding company of a substantial 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, a substantial shareholder of the Company. The directors of the Company consider that the fair value at the balance sheet date approximates to the carrying amount.

23. RESTRICTED BANK BALANCE

Pursuant to the Order 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 deposited 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 Creditors 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 Creditors(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.

23. RESTRICTED BANK BALANCE (continued)

Restricted bank balance carries interest at market rate which ranged from 2.44% to 2.79% per annum. The directors of the Company consider that the carrying amount of the restricted bank balance approximates its fair value.

24. CASH AND BANK BALANCES

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less, which carry at market interest rates. The directors of the Company consider that the carrying amount of bank balances approximates its fair value.

Bank balances carry interest at market rates which range from 2.50% to 3.24% per annum.

Half of the cash and bank balances were denominated in Renminbi ("RMB") which is not a freely convertible currency in the international market. The RMB exchange rate is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

25. TRADE AND OTHER PAYABLES

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Trade payables	30,103	78,702
Deposits received, other payables and accruals	29,367	49,689
	59,470	128,391

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

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Current	–	717
One to three months	–	9,788
Over three months	30,103	68,197
	30,103	78,702

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

26. PROVISION FOR A LEGAL CLAIM

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Balance at 1 January	41,490	32,792
Utilisation of provision upon the transfer of Property A	(41,490)	–
Provision for the year	–	8,698
Balance at 31 December	–	41,490

Petitions have been filed against a wholly owned subsidiary of the Company, Merry World Associates Limited ("Merry World"), seeking orders, among other matters, for the transfer of the Group's two investment properties with carry value of HK$41,490,000 ("Property A") and HK$44,910,000 ("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 a member 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 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 alias, the transfer of Property A and Property C to the Plaintiff. The directors of the Company, after consulting with the Group's legal counsel, have made appeal to the Higher People's Court of Guangzhou City.

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 year ended 31 December 2006, the legal procedures for the transfer of Property A were completed.

27. LOAN FROM A RELATED COMPANY

The amount represents loan from a holding company of a substantial shareholder of the Company and is unsecured and interest-free. The Company repaid the loan in full on 31 August 2006. The directors of the Company consider that the fair value at 31 December 2005 approximates to the carrying amount.

28. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

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

29. UNSECURED OTHER LOANS

The other loans from third parties are unsecured, repayable on demand and interest-free, except for a loan of HK$3,600,000 (2005: HK$3,600,000) which bears interest at prevailing market rate. The directors of the Company consider that the fair value at the balance sheet date approximates to the carrying amount.

30. SECURED OTHER LOAN

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Secured other loan within one year	9,000	17,616
Classified as liabilities associated with assets classified as held for sale (see note 9)	(9,000)	–
	–	17,616

The secured other loan represented the loan from 中國信達資產管理公司 ("Xinda") to the Group's 71% owned subsidiary, Suzhou Nanda. Pursuant to the debt restructuring agreement signed between Xinda and Suzhou Nanda on 31 December 2006, Xinda agreed to irrevocably restructure the loan to RMB9,000,000 (equivalent to HK$9,000,000) (the "Restructured Amount"). The amount of HK$14,842,000, being the difference of the original principal amount of HK$17,616,000 plus the accrued loan interest of HK$6,226,000 and the Restructured Amount, is recognised in the consolidated income statement. The Restructured Amount was fully settled by the Group on 14 February 2007.

Details of the securities to the other loan are set out in note 14.

At 31 December 2005, the interests of the Group's secured other loan are carried at fixed rate of 7.56% per annum.

31. DEFERRED TAXATION

THE GROUP

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

	Revaluation of properties	
	2006	**2005**
	HK$'000	HK$'000
At beginning of year	5,694	6,599
Credit to income for the year	(1,757)	(905)
At end of year	3,937	5,694

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

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Tax losses	(119,605)	(118,331)
Impairment losses and allowance made on assets	(67,130)	(76,678)
	(186,735)	(195,009)

No deferred tax asset has been recognised due to unpredictability of future profit streams. At 31 December 2006, included in unrecognised tax losses are losses of approximately HK$9,283,000 (2005: HK$24,553,000) which will expire in 2010. Other tax losses may be carried forward indefinitely.

31. DEFERRED TAXATION (continued)

THE COMPANY

At 31 December 2006, the Company has unused tax losses of HK$67,773,000 (2005: HK$55,379,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profits streams. The tax losses may be carried forward indefinitely.

32. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

33. SHARE CAPITAL

	2006		2005	
	Number of shares	**Amount**	**Number of shares**	**Amount**
	'000	*HK$'000*	*'000*	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January 2005, 31 December 2005 and 31 December 2006	5,000,000	500,000	5,000,000	500,000
Issued and fully paid:				
At 1 January 2005 and 31 December 2005	1,687,105	168,710	1,687,105	168,710
Issue of new shares	332,000	33,200	–	–
Exercise of share options	4,400	440	–	–
At 31 December 2006	2,023,505	202,350	1,687,105	168,710

On 8 August 2006, the Company, a 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 then total issued share capital of the Company (the "Placing") and the Substantial Shareholder shall subscribe for 332,000,000 new shares of the Company (the "Subscription Shares") after the Placing being 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 and rank pari passu with other shares in issue in all respect. The completion of Placing and Subscription took place on 11 August 2006 and 18 August 2006, respectively.

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

All shares issued during the year rank pari passu with other shares in issue in all respects.

34. SHARE OPTIONS SCHEME

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

Details of the Scheme are as follows:

(i) Purpose

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

(ii) Participants

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

(iii) Maximum number of shares

(a) 30% limit

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

(b) 10% limit

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

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

(iv) Maximum entitlement of each participant

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

34. SHARE OPTIONS SCHEME (continued)

(v) Price of shares

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

(vi) Amount payable upon acceptance of the option

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

(vii) Exercisable periods

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

(viii) Vesting periods

(1) The options granted on 8 March 2004 have vesting period as follows:

50% of the options are vested in 12 months from the date of acceptance of the offer and the balance 50% of the options are vested in 24 months from the date of acceptance of the offer.

(2) The options granted on 28 September 2004 have vesting period as follows:

100% of the options are vested in 12 months from the date of acceptance of the offer.

(ix) The remaining life of the Scheme

The life of the Scheme is 10 years commencing on 24 June 2003 and will end on 23 June 2013.

(x) Shares available for issue under the Scheme

As at 31 December 2006, the total number of shares available for issue under the Scheme was approximately 118,810,500 shares which represented approximately 5.9% of the total issued share capital of the Company.

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

	Date of grant	Exercisable period	Exercise price	Outstanding at 1.1.2005	Granted during the year	Lapsed during the year	Outstanding at 1.1.2006	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31.12.2006	Number of underlying shares
			HK$									
Directors	8.3.2004	9.3.2005 to 8.3.2009	0.364	9,000,000	–	(2,400,000)	6,600,000	–	(1,200,000)	–	5,400,000	5,400,000
	28.9.2004	29.9.2005 to 28.9.2008	0.245	8,000,000	–	–	8,000,000	–	(3,000,000)	–	5,000,000	5,000,000
Other employees	8.3.2004	9.3.2005 to 8.3.2009	0.364	14,000,000	–	(1,750,000)	12,250,000	–	(1,000,000)	(600,000)	10,650,000	10,650,000
	28.9.2004	29.9.2005 to 28.9.2008	0.245	24,050,000	–	(1,000,000)	23,050,000	–	–	(3,800,000)	19,250,000	19,250,000
Total				55,050,000	–	(5,150,000)	49,900,000	–	(5,200,000)	(4,400,000)	40,300,000	40,300,000

Number of share options exercisable at 31 December 2006 was 40,300,000 (2005: 49,900,000).

34. SHARE OPTIONS SCHEME (continued)

The following share options granted under the Scheme were exercised during the year.

Option type	Number of option exercised	Exercise date	Share price at exercise date
			HK$
Option 2	2,000,000	18.8.2006	0.425
Option 1	150,000	26.9.2006	0.500
Option 1	300,000	27.9.2006	0.510
Option 2	1,800,000	27.9.2006	0.510
Option 1	150,000	29.9.2006	0.485
	4,400,000		

The fair values of options granted on 8 March 2004 and 28 September 2004 were calculated using the Black-Scholes pricing model which is considered by the directors of the Company to be the best pricing model currently available for estimating the fair values of these options. The inputs into the model were as follows:

	Option 1	Option 2
Fair value of option at date of grant	HK$0.197	HK$0.161
Share price at date of grant	HK$0.345	HK$0.290
Exercise price	HK$0.364	HK$0.245
Expected volatility	79%	78%
Expected life in years	4	3
Risk free rate	1.5%	1.5%
Expected dividend yield	0%	0%

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

The Group recognised total expenses of HK$Nil (2005: HK$4,392,000) related to equity-settled share-based payment transactions during the year.

35. RESERVES

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on pages 29 to 30.

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	Share premium	Capital redemption reserve	Special capital reserve	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	939,273	402	–	4,319	(942,627)	1,367
Recognition of equity–settled share-based payments	–	–	–	4,392	–	4,392
Net loss for the year	–	–	–	–	(314)	(314)
At 31 December 2005 and 1 January 2006	939,273	402	–	8,711	(942,941)	5,445
Net loss for the year	–	–	–	–	(23,049)	(23,049)
Capital Reduction	(939,273)	–	965	–	938,308	–
Issue of new shares	66,400	–	–	–	–	66,400
Transaction costs attributable to issue of new shares	(694)	–	(965)	–	–	(1,659)
Issue of shares upon exercise of share options	1,439	–	–	(729)	–	710
Share option forfeited	–	–	–	(916)	916	–
At 31 December 2006	67,145	402	–	7,066	(26,766)	47,847

36. FAIR VALUE OF OTHER FINANCIAL ASSETS AND LIABILITIES

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

37. COMMITMENTS

(a) *Operating lease commitments as leasee*

At 31 December 2006, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	1,993	1,655
In the second to fourth years	3,371	–
	5,364	1,655

Leases are negotiated for an average term of four years.

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

37. COMMITMENTS (continued)

(b) Operating leases commitments as lessor

At 31 December 2006, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	544	1,105
In the second to fifth years inclusive	802	768
More than five years	700	864
	2,046	2,737

Leases are negotiated for an average term of five years.

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

38. RELATED PARTY TRANSACTIONS

During the year, the Group received interest income of HK$18,000 (2005: HK$1,183,000) from a related company.

Balance with related parties at respective balance sheet dates are set out in the consolidated balance sheet/ balance sheet and notes 17, 22 and 27 thereto.

The remuneration of key management personnel is disclosed in note 11.

Details of the issue of shares to the Substantial Shareholder are disclosed in note 33.

39. POST BALANCE SHEET EVENTS

Proposed rights issue

On 21 March 2007, the Company issued a prospectus pursuant to which, the shareholders of the Company were given a right to subscribe for three new shares of HK$0.10 each at HK$0.33 per share for every ten shares held by them.

Subsequent acquisition activities

(a) On 15 January 2007, the Group entered into a conditional agreement with a subsidiary of China Chengtong Holdings Group Limited, a holding company of a substantial shareholder of the company, to acquire 52% equity interest in 西安富祥房地產開發有限公司 through its 70% owned subsidiary, Zhongshi, at a consideration of RMB25,600,000.

(b) On 29 January 2007, the Group entered into a conditional agreement with a subsidiary of China Chengtong Holdings Group Limited, a holding company of a substantial shareholder of the company, to acquire for entire equity interest in 洛陽關林中儲物流中心 through Zhongshi at a consideration of RMB26,680,000.

(c) On 27 March 2007, the Group entered into a conditional agreement with the minority shareholder of Zhongshi to acquire the remaining 30% equity interest in Zhongshi through its wholly owned subsidiary, China Chengtong Properties Group Limited, at a consideration of RMB24,000,000.

Details of the above acquisition activities are set out in the Company's announcements dated 22 March 2007 and 27 March 2007. Up to the date of this report, the conditions of the above agreements were not wholly satisfied.

PRINCIPAL PROPERTIES

At 31 December 2006

A. INVESTMENT PROPERTY

Location	Group's effective interest	Approximate gross floor area (sq. m.)	Usage	Category of lease
Li Wan Plaza, Zones C, Level 3, 9 Dexing Lu, Liwan District, Guangzhou City, Guangdong, PRC	100%	5,366	Commercial	Medium term Lease

B. PROPERTY HELD FOR SALE

Location	Group's effective interest	Approximate gross floor area (sq. m.)	Usage	Category of lease
City of Mergence, Nos. 9 & 11, Baiwanzhuang Dajie, Xicheng District, Beijing, PRC	70%	6,580	Residential, shops and carparks	Long lease

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the year ended 31 December 2006 and the last four financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below:

	Year ended 31 December		**1.4.2004 to**	**Year ended 31 March**	
	2006	**2005**	**31.12.2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
Turnover	291,414	253,772	210,992	175,050	108,382
Profit (loss) attributable to shareholders of the Company	15,953	(45,997)	99,714	44,158	93,079

	As at 31 December			**As at 31 March**	
	2006	**2005**	**2004**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Property, plant and equipment	1,404	55,650	77,022	76,321	76,413
Investment properties	45,000	86,400	84,870	194,796	146,568
Intangible assets	–	–	–	–	79,460
Interests in associates	264	263	264	525	–
Amounts due from an associate	148,605	–	174,832	197,220	193,488
Interest in a jointly controlled entity	99,740	–	–	–	–
Current assets	234,746	551,819	291,518	64,811	52,182
Total assets	529,759	694,132	628,506	533,673	548,111
Current liabilities	(124,767)	(403,106)	(195,226)	(147,876)	(205,603)
Loans from minority interests	–	–	–	(100,807)	(100,807)
Bank loans – amount due after one year	–	–	(94,300)	–	–
Other loans – amount due after one year	–	–	–	(63,236)	(63,236)
Deferred tax liabilities	(3,937)	(5,694)	(6,599)	(10,240)	–
Total liabilities	(128,704)	(408,800)	(296,125)	(322,159)	(369,646)