# CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

# 中國誠通發展集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 217)**

## ANNOUNCEMENT OF 2006 FINAL RESULTS

The Board of Directors of China Chengtong Development Group Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 together with the comparative figures for 2005 as follows:

**CONSOLIDATED INCOME STATEMENT**

*FOR THE YEAR ENDED 31 DECEMBER 2006*

| | *NOTES* | **2006** *HK$'000* | 2005 *HK$'000* |
|---|---|---|---|
| Continuing operations | | | |
| Turnover | *3* | **247,263** | 114,053 |
| Cost of sales | | **(185,444)** | (102,351) |
| Gross profit | | **61,819** | 11,702 |
| Other income | | **9,123** | 6,940 |
| Selling expenses | | **(6,655)** | (5,457) |
| Administrative expenses | | **(19,722)** | (23,322) |
| Decrease in fair value of an investment property | | **(1,782)** | – |
| Provision for a legal claim | *4* | **–** | (8,698) |
| Finance costs | *5* | **(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 | *7* | **(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 | *8* | **(1,853)** | (31,480) |
| Profit (loss) for the year | *6* | **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 | *9* | | |
| 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 | | **1,404** | 55,650 |
| Investment properties | | **45,000** | 86,400 |
| Interests in associates | | **264** | 263 |
| Amount due from an associate | | **148,605** | – |
| Interest in a jointly controlled entity | | **99,740** | – |
| | | **295,013** | 142,313 |
| Current assets | | | |
| Inventories | | **–** | 4,536 |
| Properties held for sale | | **50,415** | 230,162 |
| Trade and other receivables | *10* | **7,769** | 31,784 |
| Bills receivable | | **–** | 144 |
| Tax recoverable | | **–** | 2,414 |
| Amount due from a minority shareholder of a subsidiary | | **–** | 1,359 |
| Amounts due from related companies | | **4,507** | 5,282 |
| Restricted bank balance | | **4,200** | – |
| Bank balances and cash | | **117,372** | 115,058 |
| | | **184,263** | 390,739 |
| Assets classified as held for sale | *8* | **50,483** | 161,080 |
| | | **234,746** | 551,819 |
| Current liabilities | | | |
| Trade and other payables | *11* | **59,470** | 128,391 |
| Deposits received on sale of properties | | **1,055** | 189,435 |
| Provision for a legal claim | *4* | **–** | 41,490 |
| Loan from a related company | | **–** | 15,000 |
| Amount due to a minority shareholder of a subsidiary | | **3,978** | 3,978 |
| Tax payable | | **17,347** | – |
| Unsecured other loans | | **7,196** | 7,196 |
| Secured other loan | | **–** | 17,616 |
| | | **89,046** | 403,106 |
| Liabilities associated with assets classified as held for sale | *8* | **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 | | **3,937** | 5,694 |
| Net assets | | **401,055** | 285,332 |
| Capital and reserves | | | |
| Share capital | | **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 |

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2006*

### 1. BASIS OF PREPARATION

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

In the current year, the Group has applied, for the first time, a number of new HKFRSs, Hong Kong Accounting Standards ("HKAS"s) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The 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 or 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. 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 8).

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 *HK$'000* | Property development *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* | Trade and manufacture of cement *HK$'000* | Trade of goods *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* | Consolidated *HK$'000* |
| **For the year ended 31 December 2006** | | | | | | | | | |
| Turnover | | | | | | | | | |
| Segment turnover | 125 | 247,138 | – | 247,263 | 44,151 | – | – | 44,151 | 291,414 |
| Result | | | | | | | | | |
| Segment result | (787 ) | 54,539 | – | 53,752 | (15,617 ) | (13 ) | – | (15,630 ) | 38,122 |
| Share of results of associates | – | – | 1 | 1 | – | – | – | – | 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 |

| | Continuing operations | | | | Discontinued operations | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Property investment *HK$'000* | Property development *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* | Trade and manufacture of cement *HK$'000* | Trade of goods *HK$'000* | Unallocated *HK$'000* | Total *HK$'000* | Consolidated *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 ) |

**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:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mainland China | **291,414** | 160,511 |
| Hong Kong | **–** | 93,261 |
| | **291,414** | 253,772 |

## 4. PROVISION FOR A LEGAL CLAIM

| | **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.

## 5. FINANCE COSTS

| | **Continuing operations** | | **Discontinued operations** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 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 |

## 6. 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 | **–** | – | **14,842** | – | **14,842** | – |

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 |

## 7. 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** | | **Discontinued operations** | | **Consolidated** | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 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 | **(1,757)** | (905) | **–** | – | **(1,757)** | (905) |
| Taxation charge for the year | **17,424** | 3,359 | **–** | 12 | **17,424** | 3,371 |

## 8. 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, Suzhou Nanda Cement Company Limited 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.

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 | **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) |

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 loans | **(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.

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<br>*HK$'000* |
|---|---|
| Amount due from an associate | 162,166 |
| *Less:* Allowance for doubtful debt | (1,086) |
| | 161,080 |

## 9. 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**<br>***HK$'000*** | 2005<br>*HK$'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**<br>**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.

**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**<br>***HK$'000*** | 2005<br>*HK$'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.

## 10. TRADE AND OTHER RECEIVABLES

| | 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 |

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:

| | 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 |

## 11. TRADE AND OTHER PAYABLES

| | 2006 | 2005 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade payables | **30,103** | 78,702 |
| Other 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:

| | 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 |

# DIVIDEND

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

# 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.

*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 transfering 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.

## POST BALANCE SHEET EVENT

### 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 fellow subsidiary of the Group to acquire for 52% equity interest in Xian PRC Company through its 70% owned subsidiary, Zhongshi at a consideration of RMB25.6 million.

(b) On 29 January 2007, the Group entered into a conditional agreement with the same fellow subsidiary of the Group to acquire for entire equity interest in Luoyang PRC Company through Zhongshi at a consideration of approximately RMB26.7 million.

(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 is wholly owned subsidiary, China Chengtong Properties Group Limited, at a consideration of RMB24 million.

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 announcement, the conditions of the above agreements were not wholly satisfied.

### 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 commerical 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 relevant sections of the Annual Report.

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES
For the year ended 31 December 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS
The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry of all the directors of the Company, they confirmed that they have complied with the required standards as set out in the Model Code during the year ended 31 December 2006.

## INDEPENDENT NON-EXECUTIVE DIRECTORS
The Company has complied with provisions of Rules 3.10(1) and 3.10(2) of the Listing Rules that a sufficient number of independent non-executive directors shall be appointed by listed issuers and that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. For the detailed profile of the independent non-executive directors of the Company, please see the annual report of the Company for the year 2006.

## CORPORATE GOVERNANCE
The directors consider that the Company has complied with the Code on Corporate Governance Practices (the "Code")as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2006, with deviations from the code provision A.4.1 of the Code in respect of the service term and rotation of directors.

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of this preliminary announcement of the Group's consolidated income statement, consolidated balance sheet and the related notes thereto for the year ended 31 December 2006 have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to be amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## PUBLICATION OF FINANCIAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The information required by paragraphs 46(1) to 46(9) inclusive of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk in due course.

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

Hong Kong, 30 March 2007

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