IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in China Chengtong Development Group Limited, you should hand this circular at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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)

MAJOR TRANSACTION:
in relation to the disposal of a subsidiary

A letter from the Board is set out on pages 4 to 12 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 10:00 a.m. on Monday, 29 May 2006 at Suites 2904-2907, 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong is set out on pages 86 to 88 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and, in any event not later than 48 hours before the time for the meeting or any adjournment thereof to the Company's share registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

9 May 2006

CONTENTS

In this circular, the following expressions shall, unless the context otherwise requires, have the following meanings:

"associate"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	China Chengtong Development Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange
"Completion"	the completion of the Disposal in accordance with the Disposal Agreement (or when entered into, the Formal Agreement)
"Consideration"	the consideration that the Purchaser has to pay for the purchase of the Sale Shares and the Sale Loan
"Directors"	the directors of the Company
"Disposal"	the sale of the Company's entire equity interests in Price Sales to the Purchaser (or its nominated wholly owned subsidiary) on the terms and conditions of the Disposal Agreement
"Disposal Agreement"	The conditional agreement dated 11 January 2006 entered into between the Vendor and the Purchaser relating to the Disposal
"East Ocean Centre Phase 2"	East Ocean Centre Phase 2, 618 Yan'An Road East, Huangpu District, Shanghai, the PRC
"EGM"	the extraordinary general meeting of the Company to be held at 10:00 a.m. on Monday, 29 May 2006, notice of which is set out on pages 86 and 88 of this circular, for approving, among other matters, the Disposal and any adjournment thereof

"Formal Agreement"	the formal agreement to be entered into by the Vendor and the Purchaser (or its nominated wholly owned subsidiary) embodying the principal terms of the Disposal Agreement and such other terms as shall be agreed by the parties
"Goodwill Overseas"	Goodwill (Overseas) Limited, a company incorporated in the British Virgin Islands and is owned as to 32% by Price Sales and as to the balance of 68% by various independent third parties
"Group"	the Company and its subsidiaries from time to time
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"independent third party"	party who is independent of and not connected with the Company and any of the directors, chief executive and substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates
"Latest Practicable Date"	28 April 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	The People's Republic of China
"Price Sales"	Price Sales Limited, a company incorporated in Hong Kong and an indirectly held wholly owned subsidiary of the Company held through, inter alia, the Vendor
"Purchaser"	Strong Grace Limited, a company incorporated in Hong Kong
"Sale Loan"	the interest-free shareholder loan advanced by or on behalf of the Vendor to Price Sales in the principal amount of approximately HK$181,223,226 as at the date of the Disposal Agreement

"Sale Shares"	the 10,000 issued shares of par value of HK$1.00 each in the capital of Price Sales, representing the entire issued share capital of Price Sales
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shareholders"	the holders of the Shares
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Shine Ocean Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"US$"	the United States dollars, the lawful currency of the United States of America
"%"	per cent.

In this circular, unless the contest otherwise requires, translations of US$ into HK$ are made in this circular, for illustration purposes only, at the rate of US$1.00 = HK$7.80.

No representation is made in this circular that any amounts in HK$ or US$ could have been or could be converted at the above rate or any other rates at all.

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)

Executive Directors:
Mr. Zhang Guotong
(Vice Chairman and Managing Director)
Mr. Wang Hongxin

Non-executive Directors:
Mr. Ma Zhengwu *(Chairman)*
Mr. Hong Shuikun
Ms. Xu Zhen
Mr. Gu Laiyun

Independent non-executive Directors:
Mr. Kwong Che Keung, Gordon
Mr. Tsui Yiu Wa, Alec
Mr. Lao Youan

Registered office:
Suites 2904-2907
29th Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

9 May 2006

To the Shareholders

MAJOR TRANSACTION:
in relation to the disposal of a subsidiary

1. INTRODUCTION

By the announcement dated 7 February 2006, the Company announced that the Vendor and the Purchaser has entered into the Disposal Agreement pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares and the Sale Loan at US$24,701,754 (equivalent to approximately HK$192,673,681). The Disposal is on terms and conditions set out in the Disposal Agreement.

The Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is conditional on approval by the Shareholders at the EGM.

The purposes of this circular are to provide you with further information relating to the Disposal and a notice of the EGM to approve, if thought fit, the Disposal.

2. THE DISPOSAL AGREEMENT

a. Date

11 January 2006

b. Parties

Vendor: Shine Ocean Limited, a wholly owned subsidiary of the Company

Purchaser: Strong Grace Limited, a company incorporated in Hong Kong

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the principal activity of the Purchaser is investment holding and its ultimate beneficial owners are independent third parties.

c. Assets to be disposed of

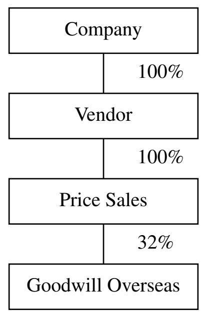
The Sale Shares , representing the entire issued share capital of Price Sales, and the Sale Loan.

Price Sales is an indirectly held wholly owned subsidiary of the Company held through, inter alia, the Vendor. Price Sales is the registered owner of 32% interest in Goodwill Overseas, which is owned as to the balance of 68% interests by the six other shareholders of Goodwill Overseas who are independent third parties.

Following completion of the Disposal, the Company will cease to hold any interest in Price Sales and Price Sales will cease to be a subsidiary of the Company.

The shareholding structure before and immediately after the Disposal is as shown in the graphs below:

before Disposal



immediately after the Disposal (not taking into account any interest in Goodwill Overseas that may be acquired by the Purchaser as mentioned in paragraph e(2) below)

d. Consideration

The Consideration is US$24,701,754 (equivalent to approximately HK$192,673,681) and is to be satisfied by the Purchaser in the manner provided below :

(1) a deposit of US$561,403 (equivalent to approximately HK$4,378,943) is to be paid within 5 workings days of the date of the Disposal Agreement to be held by the solicitors of the Purchaser as stakeholders until satisfactory due diligence review by the Purchaser. The said deposit has been paid on 6 January 2006;

(2) a further deposit of US$4,500,000 (equivalent to approximately HK$35,100,000) is to be paid upon satisfactory due diligence by the Purchaser and signing of the Formal Agreement within 3 months from the date of the Disposal Agreement or from the date of production by the Vendor of the Shareholders' resolution approving the Disposal at the EGM, whichever is the latter; and

(3) the balance in the sum of US$19,640,351 (equivalent to approximately HK$153,194,738) is to be paid within 6 months from the date of the Formal Agreement.

The Directors confirm that the Consideration has been determined after arm's length negotiation between the parties to the Disposal Agreement with reference to the unaudited net liability of Price Sales of approximately HK$11,886,130 as at 31 December 2005 as shown on the management accounts of Price Sales prepared in accordance with the Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards and the Sale Loan in the amount of approximately HK$181,223,226 as at the date of the Disposal Agreement. The Consideration represents an excess of approximately HK$204,559,811 of the unaudited net liability of Price Sales as at 31 December 2005.

e. Conditions of the Disposal

The Disposal is conditional upon the following:

(1) the passing at the EGM of a resolution of the Shareholders approving the Disposal in accordance with the terms of the Disposal Agreement pursuant to the requirements of the Listing Rules (in this regard, the Vendor shall procure World Gain Holdings Limited, which is the substantial shareholder (as defined in the Listing Rules) of the Company, to vote in favour of the resolution approving the Disposal at the EGM)

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

(3) satisfactory due diligence review by the Purchaser

In relation to the above condition (2), it has been satisfied by one of the shareholders of Goodwill Overseas holding a 25% interest in Goodwill Overseas entering into an agreement with the Purchaser for the sale of its 25% interest in Goodwill Overseas on 19 January 2006. The sale by the other shareholders holding the remaining interest in Goodwill Overseas is not required for the purpose of the above condition (2) under the Disposal Agreement. The other conditions have not been fulfilled as at the Latest Practicable Date.

f. Other terms

The Purchaser shall be entitled to share in the rental income derived from East Ocean Centre Phase 2 (a multi-storey commercial building located at 618 Yan'An Road East, Huangpu District, Shanghai, the PRC) as is reasonable between the date of the Disposal Agreement and Completion based on the proportionate amount of Consideration paid by the Purchaser, which rental income is returnable to Price Sales after deduction of a sum calculated at the rate of 6-month Hongkong Interbank Offer rate plus 2.5% per annum on the amount paid by the Purchaser should the conditions set out in paragraph e above shall not be fulfilled. The said rental income is referring to the repayment by Kingdom Land Investment & Development Co. Limited of the amount due to Goodwill Overseas as mentioned in the section "Information of the Vendor and Price Sales Group" below as is derived from the rental income of East Ocean Centre Phase 2.

If within 12 months from the date of the Disposal Agreement, East Ocean Centre Phase 2 shall be sold to a third party at a price which entitles Price Sales to receive dividends and repayment of shareholders loans over and above the Consideration, each of the Vendor and the Purchaser shall be entitled to 50% of the portion over and above the Consideration. The said dividends as may be received by Price Sales is referring to the dividends that may be declared by Goodwill Overseas in favour of Price Sales in the event that repayment shall be made by Kingdom Land Investment & Development Co. Limited of the amount due to Goodwill Overseas as mentioned in the section "Information of the Vendor and Price Sales Group" below as are derived from the sale of East Ocean Centre Phase 2.

The Purchaser shall be entitled to appoint one director to the board of directors of Goodwill Overseas prior to Completion. The director appointed shall resign from office in the event that the Purchaser should fail to proceed to Completion.

The Formal Agreement, with the principal terms of the Disposal Agreement and such other terms as shall be agreed by the parties is to be signed by the Vendor and the Purchaser (or its nominated wholly owned subsidiary) within 3 months of the Disposal Agreement.

g. Completion

Completion shall take place within six months from the date of the Formal Agreement.

The Formal Agreement is to be signed within 3 months from the date of the Disposal Agreement or from the date of production by the Vendor of the Shareholders' resolution approving the Disposal at the EGM, whichever is the latter.

3. INFORMATION OF THE VENDOR AND PRICE SALES GROUP

The Vendor, a wholly owned subsidiary of the Company, is principally engaged in the holding of the Group's investments, one of which is its 100% interest in Price Sales. Price Sales is principally engaged in investment holding. The only investment of Price Sales is its 32% interest in Goodwill Overseas.

Other than the loan to Kingdom Land Investment & Development Co. Limited as mentioned below, Goodwill Overseas is not currently engaged in any business.

Kingdom Land Investment & Development Co. Limited, the 95% ultimate beneficial owner of East Ocean Centre Phase 2, is indebted to Goodwill Overseas in the principal amount of approximately US$69,173,248 (equivalent to approximately HK$539,551,334) as at 31 December 2004 which is unsecured and interest free and was advanced to Kingdom Land Investment & Development Co. Limited for the purpose of developing East Ocean Centre Phase 2. The remaining 5% ultimate beneficial owner of East Ocean Centre Phase 2 is an independent third party. Kingdom Land Investment & Development Co. Limited is one of the beneficial owners of Goodwill Overseas holding approximately 10% interest in Goodwill Overseas. Other than the agreement dated 19 January 2006 entered into by the Purchaser for the purchase of a 25% interest in Goodwill Overseas as mentioned in paragraph 2(e) above, the Purchaser is not related to Goodwill Overseas and Kingdom Land Investment & Development Co. Limited. East Ocean Centre Phase 2 is currently not subject to any mortgage or charge and its registered owner is Shanghai Xing Tai Real Estate Development Co. Limited, a company incorporated in the PRC, which is beneficially owned as to 95% by Kingdom Land Investment & Development Co. Limited and as to the remaining 5% by an independent third party as aforesaid mentioned.

The table below set out the unaudited financial information of Price Sales for the year ended 31 March 2004 and the nine months ended 31 December 2004 and for the twelve months ended 31 December 2005 as shown on the management accounts of Price Sales prepared in accordance with the Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards:

	Year ended 31 March 2004 approximately *HK$'000*	**Nine months ended 31 December 2004 approximately** *HK$'000*	**Twelve months ended 31 December 2005 approximately** *HK$'000*
loss before taxation and minority interest	20	23	72
net loss	20	23	72
net liability	11,791	11,814	11,886

4. FINANCIAL EFFECT OF THE DISPOSAL

For illustrative purpose only, the Company is expected to have a gain on the Disposal of approximately HK$31,593,000 as at 31 December 2005, based on the unaudited carrying value of this investment of approximately HK$161,080,000 as at 31 December 2005 if the Disposal were completed on 31 December 2005.

Based on the audited carrying value of the Company's total investment in Goodwill Overseas of approximately HK$161,080,000 as at 31 December 2005. A gain on the Disposal of approximately HK$31,593,000 will be expected. The current assets of the Group will be increased by HK$31,593,000 and there will be no impact on the liabilities of the Group. This Disposal is not expected to have any adverse impact on future earnings of the Group.

5. REASONS FOR THE DISPOSAL AND USE OF PROCEEDS

The Directors consider that the Disposal represents a good opportunity for the Company to realized its investment at a price which is reasonable to the Company in view of the financial information of Price Sales as mentioned above.

The Directors (including the independent non-executive Directors) are of the view that the Disposal is on normal commercial terms to the Company and the terms of the Disposal are fair and reasonable to and in the interests of the Company and its Shareholders as a whole.

The Group intends to apply the net proceeds of approximately HK$190 million from the Disposal as additional working capital of the Group. As at the date of this circular, no investment targets have been identified by the Group for the application of the net proceeds of the Disposal.

6. GENERAL

The Group is principally engaged in the business of, among others, logistics and trading business, property investment and development, and strategic investment in Hong Kong and the PRC.

The Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is conditional on approval by the Shareholders at the EGM. The Company has confirmed with the Purchaser that none of the Purchaser nor any of its associates is holding any Shares. Therefore, no Shareholder is required to abstain from voting at the EGM.

7. EGM

The Directors will convene the EGM to be held at Suites 2904-2907, 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong at 10:00 a.m. on Monday, 29 May 2006 to consider and, if thought fit, approve the Disposal. The notice of the EGM is set out on pages 86 to 88 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed on it to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 48 hours before the time fixed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not prevent you from attending, and voting at, the EGM or any adjournment thereof if you so wish.

8. POLL PROCEDURES

Pursuant to Article 76 of the articles of association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(a) by the Chairman of the meeting; or

(b) by at least three members present in person (or in case of a member being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(d) by a member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has been on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

9. RECOMMENDATIONS

The Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM for approving the Disposal. You are advised to read these letters carefully before deciding how to vote on the resolution to be proposed at the EGM to approve the Disposal.

10. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular.

Yours faithfully,
By order of the Board
China Chengtong Development Group Limited
Zhang Guotong
Managing Director

1. FINANCIAL SUMMARY

The following is a summary of the published audited results and of the assets and liabilities of the Group for the year ended 31 December 2005 and the last two financial years (as extracted from the Summary Financial Information of the Company's annual report for the year ended 31 December 2005 and reclassified as appropriate):

	1.1.2005 to 31.12.2005	**1.4.2004 to 31.12.2004**	**Year ended 31 March 2004**
	HK$'000	*HK$'000*	*HK$'000*
		(restated)	(restated)
RESULTS			
Turnover	253,772	210,992	175,050
(Loss) profit attributable to shareholders of the Company	(45,997)	99,714	44,158

	As at 31 December		**As at 31 March**
	2005	**2004**	**2004**
	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES			
Properties, plant and equipment	55,650	77,022	76,321
Investment properties	86,400	84,870	194,796
Property under development	–	–	–
Intangible assets	–	–	–
Interests in associates	263	264	525
Amount due from associates	–	174,832	197,220
Current assets	551,819	291,518	64,811
Total assets	694,132	628,506	533,673
Current liabilities	(403,106)	(191,248)	(147,876)
Loans from minority interests	–	(3,978)	(100,807)
Bank loans – amount due after one year	–	(94,300)	–

	As at 31 December		As at 31 March
	2005	**2004**	**2004**
	HK$'000	HK$'000	HK$'000
Other loans – amount due after one year	–	–	(63,236)
Deferred tax liabilities	(5,694)	(6,599)	(10,240)
Total liabilities	(408,800)	(296,125)	(322,159)

2. INDEBTEDNESS

As at 28 February 2006, being the latest practicable date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, the Group had total loans of approximately HK$43.80 million comprising of loans from minority shareholder of approximately HK$3.98 million, short-term secured bank loans of approximately HK$17.62 million, other short-term loans of approximately HK$7.2 million and loan from immediate controlling entity of approximately HK$15 million.

The short-term secured bank loans are secured by the Group's plant and machinery with an aggregate net book value of approximately HK$9.18 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 28 February 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As mentioned in the financial results of the Company for the year ended 31 December 2005, the Group's property development business initiated a good start by completing its residential property development project in Beijing. The Group expected that demand for commercial and residential development and logistics property in Mainland China will continue to grow driven by an continue and rapid increase in residence income and urbanization process. This demand will bring enormous business opportunity to the Group's future development.

China Chengtong Holdings Company ("CCHC"), the Group's ultimate controlling shareholder, is the largest integrated warehousing logistics service enterprise in Mainland China, and has been selected by the State-owned Assets Supervision and Administration Commission ("SASAC") of the State Council as the pilot state-owned asset operating company, which will assume significant role in the restructuring of pillar state-owned enterprises. During the year ended 31 December 2005, SASAC has assigned a few factories from a few pillar state-owned enterprises to CCHC for manage their assets. Under this circumstance, the Group will take advantage of CCHC's asset management and warehousing logistics resources, and continue to dispose non-core business asset in order to concentrate our resource to fully expand property and land resources development business.

4. WORKING CAPITAL

The Directors are of the opinion that after taking into account the proceeds received from the Disposal and the internal resources of the Group, the Group has sufficient working capital for its present requirements.

5. MANAGEMENT DISCUSSION AND ANALYSIS

Property Investments

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

In January 2006, the Group through a wholly owned subsidiary has entered into a disposal agreement pursuant to which the Group has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire shareholding and the shareholder's loan of Price Sales Limited, a wholly owned subsidiary of the Company namely East Ocean Centre Phase 2 for US$24.7 million (equivalent to approximately HK$193 million). The Group's current asset will increase substantially after completion of the disposal agreement.

Strategic Investments

During the year ended 31 December 2005, affected by an overall unfavorable cement industry in Mainland China, Suzhou Nanda Cement Company Limited ("Suzhou Nanda") has recorded a turnover of HK$46 million (nine months ended 31 December 2004: HK$82 million) and an operating loss of approximately HK$6 million. Suzhou Nanda also recorded a one time charge of impairment loss on property, plant and equipment due to termination of certain production facilities. The management of Suzhou Nanda has implemented a series of measures to control cost including substantial reduction of headcount and management's salary to minimize loss. Suzhou Nanda's operation has recently improved as the cement market of the PRC was stabilized.

Trading Business

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

Results Analysis

For the year ended 31 December 2005, the Group's audited consolidated loss before minority interests was HK$46 million (nine months ended 31 December 2004 ("the corresponding period"): profit of HK$100 million). Loss per share was HK$2.7 cents. The Group's turnover was HK$254 million, 20% higher than the corresponding period as sales revenue from one of the Group's major business, a Beijing residential project, was partially recognized, and gross profit also increased to HK$11 million compared to HK$1 million in the corresponding period. In the meantime, affected by the continue recession of cement industry in the PRC, our strategic investment Suzhou Nanda Cement Company Limited ("Suzhou Nanda") recorded a decrease in turnover and an HK$24 million impairment loss on plant and equipment as some of its production facilities were terminated.

During the year ended 31 December 2005, the Group continued to implement strict financial and cost control measures to control total administrative and operating expense.

Financial Resources

Liquidity and Capital Resources

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

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

The Company has not issued any additional share during the year ended 31 December 2005 (31 December 2004: nil).

Gearing Ratio

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

Pledge of Assets

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

Treasury Policy

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

Human Resources

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

6. EXTRACT OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(a) Set out below are the audited financial statements of the Group for the year ended 31 December 2005 together with the relevant notes as extracted from the annual report of the Company for the year ended 31 December 2005.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2005

	Notes	1.1.2005 to 31.12.2005 HK$'000	1.4.2004 to 31.12.2004 HK$'000 (Restated)
Turnover	7	253,772	210,992
Cost of sales		(243,187)	(209,732)
Gross profit		10,585	1,260
Other income		7,429	1,767
Distribution costs		(6,585)	(1,216)
Administrative expenses		(27,857)	(24,289)
Impairment loss on property, plant and equipment		(23,780)	(9,473)
Revaluation deficit recognised in respect of investment properties	15	–	(6,262)
Provision for a legal claim	25	(8,698)	(32,792)
Finance costs	8	(1,407)	(1,787)
Gain on disposal of subsidiaries		–	162,989
Share of results of associates		(1)	(261)
(Loss) profit before taxation		(50,314)	89,936
Taxation	9	(3,371)	4,205
(Loss) profit for the year/period	10	(53,685)	94,141
Attributable to:			
Shareholders of the Company		(45,997)	99,714
Minority interests		(7,688)	(5,573)
		(53,685)	94,141
(Loss) earnings per share	12		
Basic		HK(2.73) cents	HK5.91 cents
Diluted		N/A	HK5.90 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2005

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

	Notes	2005 HK$'000	2004 HK$'000
		403,106	195,226
Net current assets		148,713	96,292
Total assets less current liabilities		291,026	433,280
Non-current liabilities			
Bank loans – amount due after one year	*29*	–	94,300
Deferred taxation	*30*	5,694	6,599
		5,694	100,899
Net assets		285,332	332,381
Capital and reserves			
Share capital	*32*	168,710	168,710
Reserves		84,356	124,309
Equity attributable to shareholder		253,066	293,019
Minority interests		32,266	39,362
		285,332	332,381

BALANCE SHEET
At 31 December 2005

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

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

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005

	1.1.2005 to 31.12.2005 HK$'000	1.4.2004 to 31.12.2004 HK$'000 (restated)
Cash flows from operating activities		
(Loss) profit before taxation	(50,314)	89,936
Adjustments for:		
Interest income	(1,882)	(22)
Interest expenses	1,407	1,787
Increase in provision for a legal claim	8,698	32,792
Gain on disposal of subsidiaries	–	(162,989)
Share of results of associates	1	261
Expenses recognised in respect of share options granted	4,392	4,085
Loss on disposal of property, plant and equipment	1,009	2,366
Depreciation of property, plant and equipment	3,217	4,541
Revaluation deficit recognised in respect of investment properties	–	6,262
Impairment loss recognised in respect of property, plant and equipment	23,781	9,473
Operating cash flows before working capital changes	(9,692)	(11,508)
Decrease in inventories	4,578	2,697
Increase in properties under development	(6,888)	(6,663)
Increase in trade and other receivables	(12,793)	(3,453)
Decrease in bills receivables	695	8,992
Increase in amount due from a minority interest	(22)	–
Decrease in trade and other payables	(40,142)	(18,822)
Increase in deposit received on sale of properties	189,435	19,156
Decrease in amount due to a minority interest	–	(3,799)
Cash flows from (used in) operations	125,172	(13,400)
Hong Kong Profits Tax paid	(298)	–
PRC Enterprise Income Tax paid	(6,398)	(765)
Net cash flow from (used in) operating activities	118,476	(14,165)

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000* (restated)
Cash flows from investing activities		
Purchase and disposal of subsidiaries (net of cash and cash equivalents acquired for/disposed of)	–	71,830
Proceeds from disposals of property, plant and equipment	2,551	35
Purchases of property, plant and equipment	(7,830)	(20,289)
Repayment of amount due from associates	13,752	22,388
Interest received	2,502	265
Net cash from investing activities	10,975	74,229
Cash flows from financing activities		
Bank loan raised	–	28,290
(Advance to) repayment from amount due from related companies	(262)	3,980
Repayment of bank loans	(94,300)	(1,178)
Repayment of other loan	–	(28,529)
Interest paid	(5,583)	(5,300)
Net cash used in financing activities	(100,145)	(2,737)
Net increase in cash and cash equivalents	29,306	57,327
Cash and cash equivalent at beginning of year/period	86,082	28,755
Effect of foreign exchange rate changes	(330)	–
Cash and cash equivalents at end of year/period, representing bank balances and cash	115,058	86,082

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2005

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 and principal place of business of the Company are disclosed in the Corporate Information to the annual report.

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

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

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

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

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

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

Share-based payments

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

Financial instruments

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

Classification and measurement of financial assets and financial liabilities

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

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

Investment properties

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

Deferred tax related to investment properties

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

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

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

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

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

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

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

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

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

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

[1] *Effective for annual periods beginning on or after 1 January 2007.*

[2] *Effective for annual periods beginning on or after 1 January 2006.*

[3] *Effective for annual periods beginning on or after 1 December 2005.*

[4] *Effective for annual periods beginning on or after 1 March 2006.*

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Revenue recognition

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

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

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.

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

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

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

Investment properties

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

Property, plant and equipment

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

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

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

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

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

Subsidiaries

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

Investments in associates

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

Non-current assets held for sale

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

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

Inventories

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

Properties under development for future sale/Properties held for sales

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

Borrowing costs

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

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

Impairment

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

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

Taxation

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

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

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

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

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

Foreign currencies

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

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

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

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 leases are classified as operating leases.

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

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

Financial liabilities

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

Equity instruments

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

Provisions

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

Retirement benefits costs

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

Contingent liabilities acquired in a business combination

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Share option benefit expenses

The share option benefit expense is subject to the limitations of the Black-Scholes option pricing model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model.

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognised in the income statement and share option reserve.

Impairment of property, plant and equipment

Determining whether property, plant and equipment is impaired requires an estimation of the recoverable amounts of the assets. The recoverable amounts requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. During the year, an impairment loss of HK$23,780,000 (1.4.2004 to 31.12.2004: HK$9,473,000) was recognised.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency risk

The Group collects a substantial part of its revenue in Renminbi ("RMB").

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the People's Republic of China (the "PRC") government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against Hong Kong Dollar ("HKD"), the reporting currency of the Group, may have positive or negative impact on the results of operations of the Group.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

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

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

Credit risk

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

Concentration risk

The Group concentrates its business with some major customers. The management considered to diversify its business to different customers and markets.

7. TURNOVER AND SEGMENT INFORMATION

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

Business Segments

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

	Trade and manufacture of cement	Trade of goods	Property investment	Property development	Investments holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2005						
Turnover						
Segment turnover	46,458	93,261	–	114,053	–	253,772
Result						
Segment result	(30,069)	7	(1,588)	8,219	–	(23,431)
Unallocated corporate expenses						(25,475)
Finance costs						(1,407)
Share of results of associates					(1)	(1)
Loss before taxation						(50,314)
Taxation						(3,371)
Loss for the year						(53,685)
Other information						
Additions of property, plant and equipment	7,731	–	–	97	2	7,830
Impairment loss on property, plant and equipment	23,780	–	–	–	–	23,780
Depreciation and amortisation of property, plant and equipment	(2,854)	–	–	(90)	(273)	(3,217)
Loss on disposal of property, plant and equipment	(986)	–	–	(23)	–	(1,009)
Provision for a legal claim	–	–	(8,698)	–	–	(8,698)

	Trade and manufacture of cement HK$'000	Trade of goods HK$'000	Property investment HK$'000	Property development HK$'000	Investments holding HK$'000	Consolidated HK$'000
As at 31 December 2005						
Balance sheet						
Assets						
Segment assets	62,260	601	84,870	332,453	213,948	694,132
Consolidated total assets						694,132
Liabilities						
Segment liabilities	(30,605)	(8)	(47,946)	(251,893)	(6,374)	(336,826)
Unallocated corporate liabilities						(71,974)
Consolidated total liabilities						(408,800)
For the period from 1 April 2004 to 31 December 2004						
Turnover						
Segment turnover	81,518	129,438	36	–	–	210,992
Result						
Segment result	(15,879)	45	(32,876)	(303)	(23)	(49,036)
Unallocated corporate expenses	(21,969)					
Finance costs	(1,787)					
Gain on disposal of subsidiaries	–	–	162,989	–	–	162,989
Share of results of associates	–	–	–	–	(261)	(261)
Profit before taxation						89,936
Taxation						4,205
Profit for the period						94,141

	Trade and manufacture of cement	Trade of goods	Property investment	Property development	Investments holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other information						
Additions of property, plant and equipment	20,113	–	–	12	164	20,289
Impairment loss on property, plant and equipment	(9,473)	–	–	–	–	(9,473)
Depreciation and amortisation of property, plant and equipment	(4,283)	–	–	(24)	(234)	(4,541)
Allowance made for inventories	(2,931)	–	–	–	–	(2,931)
(Loss) gain on disposal of property, plant and equipment	(2,368)	–	–	2	–	(2,366)
Revaluation deficit recognised in respect of investment properties	–	–	(6,262)	–	–	(6,262)
Provision for a legal claim	–	–	(32,792)	–	–	(32,792)
As at 31 December 2004						
Balance sheet						
Assets						
Segment assets	92,531	638	84,870	216,041	234,426	628,506
Consolidated total assets						628,506
Liabilities						
Segment liabilities	30,527	6	39,403	52,709	6,793	129,438
Unallocated corporate liabilities						166,687
Consolidated total liabilities						296,125

Geographical Segments

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

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

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

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

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

8. FINANCE COSTS

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

9. TAXATION

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

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

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

A statement of reconciliation of taxation is as follows:

	1.1.2005 to 31.12.2005	**1.4.2004 to 31.12.2004**
	HK$'000	*HK$'000*
(Loss) profit before taxation	(50,314)	89,936
Tax at the PRC Enterprise Income Tax rate of 24% (1.4.2004 to 31.12.2004: 24%)	(12,076)	21,585
Tax effect of share of results of associates	–	63
Tax effect of expenses not deductible for tax purposes	7,123	5,966
Tax effect of income not taxable for tax purposes	(818)	(39,815)
Tax effect of tax losses not recognised	7,078	8,580
Tax effect on utilisation of tax losses previously not recognised	–	(9)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,122	(3)
Under(over)provision in prior year	942	(570)
Others	–	(2)
Taxation charge (credit) for the year/period	3,371	(4,205)

10. (LOSS) PROFIT FROM FOR THE YEAR/PERIOD

	THE GROUP	
	1.1.2005 to 31.12.2005	**1.4.2004 to 31.12.2004**
	HK$'000	*HK$'000*
The (loss) profit for the year/period is arrived at after charging:		
Auditors' remuneration		
Current year/period provision	1,550	1,020
Prior period (over) under provision	(120)	54
	1,430	1,074
Depreciation of property, plant and equipment	3,127	4,533
Impairment loss on property, plant and equipment	23,780	9,473
Loss on disposal of property, plant and equipment	1,009	2,366
Minimum lease payments in respect of rented premises	1,610	1,995
Allowance made for inventories	–	2,931
Contributions to retirement benefits schemes (including directors' emoluments)	1,558	1,315
Other staff costs (including directors' emoluments)	8,256	10,737
after crediting:		
Gross rental income from investment properties	1,009	684
(Net of negligible outgoings) outgoings	–	–
Interest income excluding of interest income on the temporary investment of specific borrowings of approximately HK$620,000 (1.4.2004 to 31.12.2004: HK$243,000) which has been capitalised in properties under development	1,882	22
Exchange gain	1,530	–

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

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

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 11 (2004: 10) directors were as follows:

The other 1 director (2004: 2) has no emoluments for the year.

	Zhang Guotong	**Wu Chun Wah**	**Wong Hongxin**	**Xu Zhen**	**Ma Zhengwu**	**Gu Liayun**	**Hong Shui Kun**	**Chen Shengjie**	**Kwong Che Keung**	**Tsui Yiu Wa**	**Lao Youan**	**Total 1.1.2005 to 31.12.2005**
	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	60	360	360	180	4,955
Contributions to retirement benefit schemes	51	80	–	–	–	–	–	–	–	–	–	131
Total emoluments	1,069	1,690	465	182	240	240	240	60	360	360	180	5,086

Total

	Zhang Guotong	Wu Chun Wah	Li Tie Feng	Ma Zhengwu	Gu Liayun	Shui Kun	Hong Chen Shengjie	Che Keung	Kwong Yiu Wa	Tsui Lao Youan	1.1.2004 to 31.12.2004
	HK'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fee	454	1,000	260	164	164	164	164	270	270	135	3,045
Contributions to retirement benefit schemes	55	50	–	–	–	–	–	–	–	–	55
Total emoluments	459	1,050	260	164	164	164	164	270	270	135	3,100

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two directors (1.4.2004 to 31.12.2004: two) of the Company whose emoluments are included in note 6(a) above. The emoluments of the remaining three (1.4. 2004 to 31.12.2004: three) individuals were as follows:

	THE GROUP	
	1.1.2005 to 31.12.2005	**1.4.2004 to 31.12.2004**
	HK$'000	*HK$'000*
Salaries and other benefits	1,479	2,646
Contributions to retirement benefits schemes	78	55
	1,557	2,701

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

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

12. EARNINGS PER SHARE

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

	THE GROUP	
	1.1.2005 to 31.12.2005	**1.4.2004 to 31.12.2004**
	HK$'000	*HK$'000* (restated)
(Loss) profit for the year and earnings for the purposes of basic and diluted earnings per share	(45,997)	99,714
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,687,104,970	1,687,104,968
Effect of dilutive potential ordinary shares in respect of share options	N/A	1,976,336
Weighted average number of ordinary shares for the purpose of diluted earnings per share	N/A	1,689,081,304

Impact of the adoption of new and revised accounting policies

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

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

13. RETIREMENT BENEFITS SCHEMES

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings	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 April 2004	80,418	81,431	15,530	7,455	2,944	187,778
Additions	2,747	42	211	–	17,289	20,289
Acquired on acquisition of subsidiaries	–	–	60	304	–	364
Transfer	–	160	–	–	(160)	–
Disposals	(1,072)	(3,113)	(688)	(1,865)	–	(6,738)
Disposal of subsidiaries	(3,937)	–	(1,810)	(1,592)	–	(7,339)
At 31 December 2004	78,156	78,520	13,303	4,302	20,073	194,354
Currency realignment	1,266	1,416	12	61	362	3,117
Additions	3,023	434	111	–	4,262	7,830
Transfer	14,237	10,460	–	–	(24,697)	–
Disposals	(9,303)	(640)	(26)	(782)	–	(10,751)
At 31 December 2005	87,379	90,190	13,400	3,581	–	194,550
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 April 2004	31,050	60,474	13,711	6,222	–	111,457
Provided for the period	1,906	2,050	306	279	–	4,541
Eliminated on disposals	(483)	(1,729)	(607)	(1,518)	–	(4,337)
Impairment loss recognised in income statements	6,273	3,192	–	8	–	9,473
Disposal of subsidiaries	(518)	–	(1,692)	(1,592)	–	(3,802)

	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*
At 31 December 2004	38,228	63,987	11,718	3,399	–	117,332
Currency realignment	546	1,162	10	43	–	1,761
Provided for the year	1,359	1,211	196	451	–	3,217
Eliminated on disposals	(5,881)	(581)	(4)	(725)	–	(7,191)
Impairment loss recognised in income statements	9,166	14,615	–	–	–	23,781
At 31 December 2005	43,418	80,394	11,920	3,168	–	138,900
NET BOOK VALUES						
At 31 December 2005	43,961	9,796	1,480	413	–	55,650
At 31 December 2004	39,928	14,533	1,585	903	20,073	77,022

The directors of the Company have met the county government of Wen Ting County, Suzhou, the PRC and obtained written notice for the usage right of a piece of land located at Wen Ting County. However, the State Land Bureau has yet to give its approval to the Group's title to this piece of land, held through a 71% subsidiary (with the remaining 29% held by a PRC joint venture partner), on which buildings with net book value of HK$38,202,000 (2004: HK$39,928,000) have been erected. It is the responsibility of the PRC joint venture partner to ensure that the appropriate land use right certificate is obtained and they have confirmed to the Group that they are in the process of obtaining the land use right certificate from the State Land Bureau.

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

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

THE COMPANY

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

15. INVESTMENT PROPERTIES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
FAIR VALUE		
At beginning of year/period	84,870	194,796
Disposal of subsidiaries	–	(103,664)
Revaluation deficit	–	(6,262)
Exchange gain on revaluation of investment properties	1,530	–
At end of year/period	86,400	84,870

Analysed by lease term and geographical location:

Medium term leasehold properties situated outside Hong Kong	86,400	84,870

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

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

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

16. INTERESTS IN SUBSIDIARIES

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

Particulars of the principal subsidiaries are as follows:

Company	**Place of incorporation/ registration**	**Total paid-up and issued ordinary share/ registered capital**	**Equity interest owned by the Group** %	**Principal activities**
Directly held:				
Galactic Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Investment holding
Merry World Associates Limited	British Virgin Islands (the "BVI")	1 ordinary share of US$1 each	100	Property investment
Indirectly held:				
Boxhill Limited	BVI	1 ordinary share of US$1 each	100	Investment holding
Chengtong Hua Da Trading Limited	Hong Kong	100 ordinary shares of HK$1 each	51	Trading
Come Ward Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100	Trading

Company	Place of incorporation/ registration	Total paid-up and issued ordinary share/ registered capital	Equity interest owned by the Group	Principal activities
			%	
Evolve Limited	Hong Kong	500 ordinary shares of HK$10 each	100	Property investment
Chengtong Trading (International) Limited	Hong Kong	500,000 ordinary shares of HK$10 each	100	Trading
Price Sales Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100	Investment holding
Sea-Land Mining Limited	Hong Kong	1,000,000 ordinary shares of HK$10 each	100	Investment holding
蘇州南達水泥有限公司* Suzhou Nanda Cement Company Limited	PRC	RMB101,262,000	71.03	Trade and manufacture of cement
中實投資有限責任公司* Zhongshi Investment Company Limited	PRC	RMB80,000,000	70	Properties development

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

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

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

17. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM AN ASSOCIATE

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

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

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

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

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

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

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

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

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

18. INVENTORIES

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

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

19. PROPERTIES UNDER DEVELOPMENT FOR FUTURE SALE

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

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

During the year, net interest capitalised amounted to HK$3,536,000 (1.4.2004 to 31.12.2004: HK$3,270,000). At 31 December 2004, properties under development amounting to HK$33,929,000 have been pledged as securities for the Group's bank loans.

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

20. TRADE AND OTHER RECEIVABLES

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

Trade receivables

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

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

The directors considered that the fair value at the balance sheet dates approximate the carrying amounts.

21. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The amount due from a minority interest is unsecured, interest-free and has no fixed terms for repayment. The directors considered that the fair value at the balance sheet date approximates to the carrying amount.

22. AMOUNTS DUE FROM RELATED COMPANIES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Name of related companies		
中國物資開發投資總公司	4,621	4,621
China Chengtong Hong Kong Company Limited	100	–
Nardu Company Limited	125	27
Panyu Lucky Rich Real-Estates Development Limited	430	372
Tat Yeung Investment Limited	6	–
	5,282	5,020

The amounts are unsecured, interest-free and repayable on demand. 中國物資開發投資總公司 is a subsidiary of China Chengtong Holdings Company, a holding company of a substantial shareholder of the Company. Nardu Company Limited, Panyu Lucky Rich Real-Estates Development Limited and Tat Yeung Investment Limited are subsidiaries of China Chengtong Hong Kong Company Limited, a substantial shareholder of the Company. The directors considered that the fair value at the balance sheet date approximates to the carrying amount.

23. ASSETS CLASSIFIED AS HELD FOR SALE

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

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

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

The Disposal Agreement is conditional upon the following:

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

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

(3) satisfactory due diligence review by the Purchaser.

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

24. TRADE AND OTHER PAYABLES

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Trade payables	78,702	52,462
Deposits received, other payables and accruals	49,686	47,332
	128,391	99,794

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

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

25. PROVISION FOR A LEGAL CLAIM

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

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

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

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

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

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

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

26. LOAN FROM A RELATED COMPANY

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

27. AMOUNT DUE TO A MINORITY SHAREHOLDER

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

28. OTHER LOANS

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

29. BANK LOANS, SECURED

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

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

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

30. DEFERRED TAXATION

THE GROUP

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

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

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

	THE GROUP	
	2005	**2004**
	HK$'000	*HK$'000*
Tax losses	(225,999)	(196,507)
Impairment losses and allowance made on assets	(76,678)	(54,338)
	(325,017)	(250,845)

No deferred tax asset has been recognised due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

THE COMPANY

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

31. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

32. SHARE CAPITAL

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

33. SHARE OPTIONS SCHEMES

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

Details of the Scheme are as follows:

(i) Purpose

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

(ii) Participants

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

(iii) Maximum number of shares

(1) 30% limit

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

(2) 10% limit

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

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

(iv) Maximum entitlement of each participant

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

(v) Price of shares

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

(vi) Amount payable upon acceptance of the option

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

(vii) Exercisable periods

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

(viii) Vesting periods

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

(ix) The remaining life of the Scheme

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

(x) Shares available for issue under the Scheme

As at 31 December 2005, the total number of shares available for issue under the New Scheme was approximately 113,445,000 shares which represented approximately 6.7% of the total issued share capital of the Company.

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

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

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

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

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

The Group recognised total expenses of HK$4,319,000 (1.4.2004 to 31.12.2004: HK$4,085,000) related to equity-settled share-based payment transactions during the year.

34. RESERVES

Details of changes in reserves of the Group are set out in the consolidated statements of changes in equity on page 11.

THE COMPANY

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

35. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

36. COMMITMENTS

(a) Capital commitments

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

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

(b) Operating lease commitments as leasee

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

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

Leases are negotiated for an average term of three years.

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

(c) Operating leases commitments as lessor

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

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

Leases are negotiated for an average term of three years.

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

37. RELATED PARTY TRANSACTIONS

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

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

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at the Latest Practicable Date, apart from as disclosed under the paragraph headed "Share Options Scheme" below, none of the Directors nor the chief executive of the Company had interests in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (c) were required, to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Share Option Scheme

As at the Latest Practicable Date, the following Directors have personal interests in options to subscribe for the Shares granted under the share option schemes adopted by the Company on 24 June 2003:

Name of Director	Exercisable period	Exercise Price HK$	Number of underlying shares of the Company interested	Approximate percentage of shareholding held upon exercise of all the options *(Note)*
Ma Zhengwu	9.3.2005 to 8.3.2009	0.364	1,200,000	0.07%
Zhang Gutong	9.3.2005 to 8.3.2009	0.364	1,200,000	0.07%
	29.9.2005 to 28.9.2008	0.245	3,000,000	0.18%
Hong Shuikun	9.3.2005 to 8.3.2009	0.364	1,200,000	0.07%
Gu Laiyun	9.3.2005 to 8.3.2009	0.364	1,200,000	0.07%
	29.9.2005 to 28.9.2008	0.245	2,000,000	0.12%
Xu Zhen	9.3.2005 to 8.3.2009	0.364	600,000	0.04%
			10,400,000	0.62%

Note: These percentages are calculated on the basis of the total number of issued shares of the Company as at the Latest Practicable Date i.e. 1,687,104,968.

3. OTHER INTERESTS OF THE DIRECTORS

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2005 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and there is no contract or arrangement subsisting at the date of this circular in which any Director is materially interested and which is significant in relation to the business of the Group.

4. DISCLOSEABLE INTEREST UNDER DIVISION 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

(a) So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	**Nature of interest**	**Number of Shares**	**Approximate percentage of interest**
World Gain Holdings Limited	controlled corporation	608,201,500(L)	36.05%
China Chengtong Hong Kong Company Limited	controlled corporation *(Note 2)*	608,201,500(L)	36.05%
China Chengtong Holdings Company	beneficial owner *(Note 2)*	608,201,500(L)	36.05%

Notes:

1. The letter "L" represents the entity's interest in the Shares.

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

(b) So far as is known to the Directors, the following entities are, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the subsidiaries of the Company as at the Latest Practicable Date:

Name of subsidiary	Name of shareholder	Number of shares	Approximate percentage of interest
Caesar Assets Limited	Skywalk Group Limited	30 shares of US$1 each	30%
China-eDN.com Limited	Diagonal Trading Limited	2,000,000 shares of HK$1 each	20%
Galaxy Gain Limited	Ever Lasting Value Securities Limited	17 shares of US$1 each	17%
Suzhou Nanda Cement Co. Ltd.	蘇州吳縣望亭水泥廠 (transliteration being Suzhou Wu County Wangting Cement Plant)	Registered capital of US$5,069,600	28.97%
Zhongshi Investment Company Limited	北京興合動力投資管理有限公司 (translated as Beijing Xinghe Dongli Investment Management Co., Ltd.)	Registered capital of RMB24,000,000	30%

(c) Save as disclosed above, the Directors and chief executive of the Company are not aware of any other person who, as at the Latest Practicable Date, had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. LITIGATION

As at the Latest Practicable Date, save as disclosed below, none of the members of the Group is engaged in any litigation or arbitration or claim of material importance and there is no litigation or arbitration or claim of material importance is known to the Directors to be pending or threatened against the Group:

(a) The Company commenced legal proceedings on 10 August 2002 against two former non-executive Directors, Mr. Chung Ho and Mr. Wu Yuehua and three other directors ("New Directors"), namely Wong Sun Keung, Lai Yau Hong and Ip Wing Chuen, appointed at a purported board meeting held on 4 August 2002 ("**Purported Board Meeting**") seeking to, amongst others, invalidated the resolutions in relation to the appointment of the New Directors passed at the Purported Board Meeting. The Group has discontinued the action on the New Directors who tendered their resignations as directors on 13 August 2002 and there has been no further progress of these proceedings since then.

(b) The Group commenced a legal action in Hong Kong in September 2002 against (i) Sharp Class International Limited ("**Sharp Class**") to recover HK$308 million paid to Sharp Class and (ii) Mr. Lo Chu Kong, a former chief executive officers of China-eDN.com Limited, a subsidiary of the Company, who approved the payment of HK$308 million to Sharp Class. The Directors have no knowledge as to the exact purpose and nature of this payment for the lack of satisfactory records and the Company has reported this transaction to relevant government authorities. Default judgment for the amount claimed of approximately HK$308 million plus interest and cost has been entered against Sharp Class on 21 January 2003 and there has been no further progress of these proceedings since then. The Company is considering taking enforcement proceedings against Sharp Class.

(c) The Group commenced a legal action in Hong Kong in November 2002 against (i) Sharp Class to recover HK$50 million paid to Sharp Class and (ii) Mr. Yuen Wai (the former chairman) and Mr. Chung Ho (a former non-executive Director) who approved the payment of HK$50 million to Sharp Class. The Directors have no knowledge as to the exact purpose and nature of this payment for the lack of satisfactory records and the Company has reported this transaction to relevant government authorities.

Default judgment for the amount claimecd of HK$50 million plus interest and cost has been entered against Sharp Class on 6 February 2003 and there has been no further progress of this legal action since then. The Company is considering taking enforcement proceedings against Sharp Class.

(d) Two petitions dated 28 July 2003 and 11 May 2004 were filed by Guangzhou Sui Nan Building Development Limited ("Guangzhou Sui Nan") against the Group's wholly owned subsidiary, Merry World Associates Limited ("Merry World"), for the transfer of the properties of Merry World situated at Li Wan Plaza, Zone A level 3 ("3A") and Zone C Level 3 ("3C"), 9 Dexing Lu, Liwan, Guangzhou, PRC. Merry World was ordered to transfer the title of both 3A and 3C to the plaintiff by the PRC courts on 13 July 2005 and 16 September 2005 respectively. Pursuant to two settlement agreements both dated 1 March 2006 entered into between Merry World and the plaintiff, 3A was agreed to be transferred to the plaintiff and 3C was, despite the order of the PRC courts, agreed to be retained by Merry World and the two settlement agreements were both completed on 1 March 2006.

7. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or any of their respective associates was interested in any business, apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

8. MATERIAL CONTRACTS

Save as disclosed below, no material contracts (not being contracts entered into in the ordinary course of business carried out by the Group) have been entered into by any member of the Group within the two years preceding the date of this circular:

(a) the conditional share sale agreement dated 25 March 2004 entered into by the Company and China Chengtong Hong Kong Company Limited for the sale of the Company's entire equity interests in Ocean-Land Management Limited and Tat Yeung Investments Limited at a consideration of HK$72,836,000 which was completed on 31 August 2004;

(b) two settlement agreements both dated 1 March 2006 entered into between Merry World and Guangzhou Sui Nan for, among other matters, the transfer of 3A by Merry World to Guangzhou Sui Nan and the discontinuance and withdrawal by Guangzhou Sui Nan of all its claims made and legal proceedings instituted against Merry World in relation to 3C and confirmation of title of Merry World in 3C; and

(c) the Disposal Agreement.

9. GENERAL

(a) The registered office of the Company is at Suites 2904-2907, 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

(b) The secretary of the Company is Mr. Lai Ka Fai Albert, who is a solicitor of the High Court of Hong Kong.

(c) The qualified accountant of the Company is Ms. To Suen Fan, Lisa, who is a member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.

(d) The Company's share registrar is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English text shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of the Company at Suites 2904-2907, 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, up to and including 29 May 2006:

(a) the memorandum and articles of association of the Company;

(b) the audited consolidated financial statements of the Group for the two years ended 31 December 2005;

(c) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix; and

(d) a copy of a circular dated 20 April 2006 regarding a discloseable transaction of the Company issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules which has been issued since 31 December 2005, being the date to which the latest published audited consolidated financial statements of the Group were made up.

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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Chengtong Development Group Limited (the "Company") will be held at 10:00 a.m. on Monday, 29 May 2006 at Suites 2904-2907, 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

the conditional agreement dated 11 January 2006 ("**Disposal Agreement**") entered into between Shine Ocean Limited as vendor and Strong Grace Limited as purchaser, relating to the disposal ("**Disposal**") of the Company's entire equity interests in Price Sales Limited, a copy of which has been produced to the meeting marked "A" and initialled by the chairman of the meeting for the purpose of identification, and all transactions contemplated thereunder as described in the circular of the Company dated 9 May 2006 ("**Circular**") (including without limitation, the entering into of the Formal Agreement as described in the Circular), be and are hereby approved; and the directors of the Company ("**Directors**") be and they are hereby authorised to do all such acts and things (including, without limitation, signing, execution (under hand or under seal), perfection and delivery of all documents, including without limitation, the Formal Agreement) which are in their opinion necessary, appropriate, desirable or expedient to implement or to give effect to the terms of the Disposal Agreement and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the Disposal Agreement and all transactions contemplated thereunder and are in the interests of the Company.

By order of the Board
China Chengtong Development Group Limited
Zhang Guotong
Managing Director

Hong Kong, 9 May 2006

Registered office:
Suites 2904-2907
29th Floor
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is appointed. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith. In case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.

2. To be valid, the form of proxy together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's share registrar of the Company, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. Completion and return of the accompanying form of proxy will not preclude members of the Company from attending and voting in person at the meeting or any adjournment thereof should they so wish.

4. Right to demand a poll

   Pursuant to Article 76 of the articles of association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is) before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) demanded:

   (i) by the Chairman of the meeting; or

   (ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has been on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

The Directors of the Company as at the date of this notice are Mr. Zhang Guotong (executive director), Mr. Wang Hongxin (executive director), Mr. Ma Zhengwu (non-executive director), Mr. Hong Shuikun (non-executive director), Ms. Xu Zhen (non-executive director), Mr. Gu Laiyun (non-executive director), Mr. Tsui Yiu Wa, Alec (independent non-executive director), Mr. Kwong Che Keung, Gordon (independent non-executive director), and Mr. Lao Youan (independent non-executive director).