THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution 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 ("**Company**"), you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of the Company in connection with an extraordinary general meeting ("**EGM**") of the Company to be held at 11:30 a.m. on Friday, 8 June 2007.

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 AND CONNECTED TRANSACTION

in respect of the proposed acquisition of 30% interest in a 70% owned subsidiary from a connected person

Independent financial adviser to the
Independent Board Committee and the Independent Shareholders

CIMB

CIMB-GK Securities (HK) Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from CIMB-GK containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 19 of this circular.

A notice convening the EGM to be held at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong at 11:30 a.m., on Friday, 8 June 2007 is set out on pages 112 to 113 of this circular. If you are not able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

18 May 2007

CONTENTS

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

"Articles"	the articles of association of the Company
"associate"	has the meaning ascribed to it under Chapters 1 and 14A of the Listing Rules
"CCHG"	China Chengtong Holdings Group Limited, the ultimate holding company of the Company
"CCHK"	China Chengtong Hong Kong Company Limited, the holding company of World Gain, a controlling shareholder (as defined in the Listing Rules) of the Company
"CCPGL"	China Chengtong Properties Group Limited (中國誠通地產集團有限公司), a wholly-owned subsidiary of the Company and the purchaser named in the Zhongshi Acquisition Agreement
"CIMB-GK"	CIMB-GK Securities (HK) Limited, a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial advisers to the Independent Board Committee and the Independent Shareholders in relation to the Zhongshi Acquisition
"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
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company convened to be held at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong at 11:30 a.m. on Friday, 8 June 2007 for the purposes of considering the Zhongshi Acquisition
"Enlarged Group"	the Group following completion of the Zhongshi Acquisition
"Group"	the Company and its subsidiaries from time to time
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Shareholders"	in regard to the Zhongshi Acquisition, Shareholders other than the Zhongshi Vendor and its associates

"Independent Board Committee"	the independent committee of the Board comprising three independent non-executive Directors namely, Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Lao Youan established by the Board for the purpose of advising the Independent Shareholders in relation to the Zhongshi Acquisition
"independent third party"	a 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"	16 May 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Luoyang PRC Company"	洛陽城南中儲物流有限公司 (unofficial English name, Luoyang Southern City CMST Logistics Limited) (formerly known as 洛陽關林中儲物流中心 (unofficial English name, Luoyang Guanlin Zhongchu Logistics Centre))
"PRC"	the People's Republic of China excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC GAAP"	the generally accepted accounting principles of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the ordinary shares which have a par value of HK$0.10 each in the capital of the Company
"Shareholder(s)"	shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"World Gain"	World Gain Holdings Limited, the controlling shareholder (as defined in the Listing Rules) of the Company

"Xian PRC Company"	西安富祥房地產開發有限公司 (unofficial English name, Xian Fuxiang Real Estate Development Limited)
"Zhongshi"	中實投資有限責任公司 (unofficial English name, Zhongshi Investment Company Limited), a 70% owned subsidiary of the Company prior to the completion of the Zhongshi Acquisition
"Zhongshi Acquisition"	the proposed acquisition of the Zhongshi Sale Equity by the Group pursuant to the terms and conditions of the Zhongshi Acquisition Agreement
"Zhongshi Acquisition Agreement"	the conditional agreement dated 27 March 2007 made between the Zhongshi Vendor and CCPGL
"Zhongshi Audited Account"	the financial statements to be prepared by Zhongshi in respect of its property development under the name of 融城(unofficial translation being City of Mergence) in Beijing, the PRC comprising a profit and loss account for the period up to 31 December 2007 and a balance sheet as at 31 December 2007, which shall be prepared in accordance with PRC GAAP and on the other basis as set out in the Zhongshi Acquisition Agreement and audited by a firm of PRC auditors agreed by the Purchaser and the Vendor
"Zhongshi Sale Equity"	the 30% of the registered capital in Zhongshi owned by the Zhongshi Vendor as at the date of the Zhongshi Acquisition Agreement
"Zhongshi Vendor"	北京興合動力投資管理有限公司(unofficial English name, Beijing Xinghe Dongli Investment Management Co., Ltd.), the owner of the Zhongshi Sale Equity and the vendor named in the Zhongshi Acquisition Agreement
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

Unless the context requires otherwise, translation of RMB into HK$ is made, for illustration purpose only, at the rate of RMB1=HK$1. No representation is made that any amounts in RMB or HK$ could have been or could be converted at the above rate or at any rate 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
Mr. Gu Laiyun
Ms. Xu Zhen

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

Registered Office:
Suite 6406, 64th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

18 May 2007

To the Shareholders

Dear Sir or Madam

MAJOR AND CONNECTED TRANSACTION
in respect of the proposed acquisition of 30% interest in a 70% owned subsidiary from a connected person

INTRODUCTION

On 27 March 2007, the Board announced that the Zhongshi Acquisition Agreement was signed on 27 March 2007 pursuant to which the Group acquired the remaining 30% interest in the registered capital of Zhongshi from a connected person of the Company.

The Zhongshi Acquisition constitutes a major and connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

The purpose of this circular is to give you further information regarding, among other matters, the Zhongshi Acquisition, the advice of the Independent Board Committee to the Independent Shareholders and the advice from CIMB-GK to the Independent Board Committee and the Independent Shareholders and to give you notice of the EGM.

THE ZHONGSHI ACQUISITION AGREEMENT

Date

27 March 2007

Parties

Vendor: 北京興合動力投資管理有限公司 (unofficial translation being Beijing Xinghe Dongli Investment Management Co., Ltd.), the owner of 30% of the registered capital of Zhongshi, which is principally engaged in investment holdings.

Purchaser: CCPGL, a wholly-owned subsidiary of the Company.

Assets acquired

The Zhongshi Sale Equity, being 30% of the registered capital of Zhongshi. There is no restriction to the subsequent sale of the Zhongshi Sale Equity pursuant to the terms of the Zhongshi Acquisition Agreement.

Consideration and terms of payment

Subject to adjustment as described in paragraph headed "Adjustment to the Zhongshi Consideration" below, the consideration for the Zhongshi Acquisition payable by the CCPGL to the Zhongshi Vendor is RMB24,000,000 (equivalent to HK$24,000,000) ("**Zhongshi Consideration**") and will be paid in cash by internal resources, the payment terms of which are as follows:

(a) RMB16,800,000 (equivalent to HK$16,800,000) (i.e., 70% of the Zhongshi Consideration) is payable within 7 days from the date of the Acquisition Agreement (i.e., on or before 2 April 2007) ("**First Payment**"); and

(b) on the basis that the Zhongshi Consideration is not required to be adjusted, RMB7,200,000 (equivalent to HK$7,200,000) (i.e., 30% of the Zhongshi Consideration) ("**Second Payment**") shall be payable within 45 days of the issuance of the Zhongshi Audited Account ("**Second Payment Date**").

The Directors confirm that the Zhongshi Consideration was arrived at after arm's length negotiations between the parties to the Zhongshi Acquisition Agreement and was by reference to the registered capital of RMB80,000,000 of Zhongshi. The original cost of the Zhongshi Sale Equity to the Zhongshi Vendor was RMB24,000,000, being its contribution to the registered capital of Zhongshi.

Conditions of the Zhongshi Acquisition

Completion of the Zhongshi Acquisition is conditional upon the followings conditions having been fulfilled (or waived by CCPGL) within 6 months from the date of the Zhongshi Acquisition Agreement (or such later date as the parties may agree) ("**Long Stop Date**"):

(1) the passing by the Independent Shareholders at an extraordinary general meeting of the Company approving and authorising the Zhongshi Acquisition and the terms and conditions of the Zhongshi Acquisition Agreement;

(2) the obtaining by the Zhongshi Vendor of all necessary approvals from the relevant PRC approving authorities in relation to the Zhongshi Acquisition and the Zhongshi Acquisition Agreement in accordance with the applicable PRC laws and regulations;

(3) satisfactory due diligence review by CCPGL of the Zhongshi Sale Equity; and

(4) a legal opinion (in form and substance satisfactory to the Purchaser) on the ownership of the Zhongshi Sale Equity, the legality and validity of the Zhongshi Acquisition and of all transactions contemplated under the Zhongshi Acquisition Agreement issued by a firm of legal advisers practising PRC laws.

CCPGL may waive any of the above conditions (other than the above conditions (1) and (2) which must be fulfilled and cannot be waived) on or before the Long Stop Date.

If any of the above conditions are not fulfilled or, as the case may be, waived by CCPGL on or before the Long Stop Date, CCPGL can terminate the Zhongshi Acquisition Agreement by written notice given to the Zhongshi Vendor to this effect whereupon the First Payment shall be returned to CCPGL on or before the date for payment as specified in the said written notice.

Completion of the Zhongshi Acquisition

Completion of the Zhongshi Acquisition is to take place within 14 business days from the date of fulfillment or, as the case may be, waiver of the conditions set out in the paragraph headed "Conditions of the Zhongshi Acquisition" (other than conditions (1) and (2) which must be fulfilled and cannot be waived).

Zhongshi will become a 100% indirectly owned subsidiary of the Company after completion of the Zhongshi Acquisition.

Adjustment to the Zhongshi Consideration

The Zhongshi Vendor and CCPGL shall jointly procure the auditors responsible for the auditing of the Zhongshi Audited Accounts shall make available the Zhongshi Audited Accounts to the parties.

The Zhongshi Consideration is subject to adjustment if the after-tax profits as shown on the Zhongshi Audited Accounts is not equal to RMB40,000,000.

If in accordance with the Zhongshi Audited Accounts:

(a) the amount of after-tax profits is equal to RMB40,000,000, no adjustment will be made to the Zhongshi Consideration;

(b) the amount of after-tax profits is more than RMB40,000,000, the Zhongshi Consideration will be adjusted upward as follows:

$$A = B \times 30\%$$

where:

A = the amount of upward adjustment to be made to the Zhongshi Consideration (in RMB)

B = the amount by which the after-tax profits exceeds RMB40,000,000 provided that where such excessive amount is more than RMB10,000,000, such excessive amount shall be deemed as RMB10,000,000

(c) the amount of after-tax profits is less than RMB40,000,000 or there is an after-tax loss, the Zhongshi Consideration will be adjusted downward as follows:

$$C = D \times 30\%$$

where:

C = the amount of downward adjustment to be made to the Consideration (in RMB), in any event must not be negative

D = (aa) RMB40,000,000, when there is no after-tax profits or loss; or

(bb) the difference between RMB40,000,000 and the after-tax profits as shown in the Zhongshi Audited Accounts, when the after-tax profits is less than RMB40,000,000; or

(cc) the amount of after-tax loss (in positive term) plus RMB40,000,000, when there is an after-tax loss.

The amount of upward adjustment that needs to be made to the Zhongshi Consideration shall be paid by CCPGL to the Zhongshi Vendor on the Second Payment Date and the maximum amount of the upward adjustment is RMB3,000,000. Taking into account such maximum upward adjustment, the maximum amount of the Zhongshi Consideration (as adjusted) shall be RMB27,000,000.

If the amount of downward adjustment to be made to the Zhongshi Consideration:

(a) is equal to the amount of the Second Payment, no Second Payment shall be payable by CCPGL to the Zhongshi Vendor on the Second Payment Date;

(b) is less than the amount of the Second Payment, the Second Payment will be reduced by an amount equal to the amount of the downward adjustment and only the balance of the amount after such deduction shall be payable on the Second Payment Date; and

(c) is more than the amount of the Second Payment, no Second Payment shall be payable by CCPGL on the Second Payment Date and instead, the Zhongshi Vendor shall pay to CCPGL on the Second Payment Date the amount by which the amount of the downward adjustment exceeds the amount of the Second Payment.

INFORMATION ON ZHONGSHI

The principal activities of Zhongshi are property development and investment management. Zhongshi is the developer of a residential/commercial development project known as 融城 (City of Mergence) located at Nos. 9 and 11, Baiwanzhuang Dajie, Xicheng District, Beijing, the PRC.

The audited total assets of Zhongshi attributable to a 30% interest in Zhongshi as at 31 December 2006 was approximately RMB36,374,000. Based on financial information of Zhongshi prepared in accordance with accounting principles generally accepted in Hong Kong as set out in Appendix II to this circular, the audited net profits (both before and after taxation and extraordinary items) of Zhongshi for the two years ended 31 December 2006 are as follows:

	Year ended 31 December 2005 *RMB'000* audited	**Year ended 31 December 2006** *RMB'000* audited
Net profit before taxation and extraordinary items	10,526	60,187
Net profit after taxation and extraordinary items	7,052	40,325

Management discussion and analysis

Set out in Appendix II to this circular is the accountants' report on Zhongshi for the three years ended 31 December 2006. Below is the management discussion and analysis on the performance of Zhongshi during such three years period.

Zhongshi recorded turnover of approximately RMB252 million and RMB119 million for the year ended 31 December 2006 and 31 December 2005 respectively. They were mainly attributable to the sale of units and car-parking space of its property development project ("**City of Mergence**") located at Xicheng District in Beijing. The construction work of City of Mergence was completed in October 2005 and its sales revenue was recognised after its completion. It achieved a remarkable result by contributing a pre-tax profit of approximately RMB60 million and RMB10.5 million for the year ended 31 December 2006 and 31 December 2005 respectively. Its loss before taxation of approximately RMB5.5 million for the year ended 31 December 2004 was mainly due to the expenditures incurred.

Pledge of assets

Zhongshi did not have any pledged asset at 31 December 2005 and 31 December 2006 while the land use right included in its properties under development amounting to approximately RMB36 million were pledged as collateral security for its bank loans at 31 December 2004.

Liquidity and capital resources

Zhongshi had cash and bank balances amounting to approximately RMB42 million, RMB74 million and RMB66 million for the years ended 31 December 2004, 2005 and 2006 respectively. Its net current assets were approximately RMB173 million, RMB80 million and RMB80 million for the years ended 31 December 2004, 2005 and 2006 respectively.

At 31 December 2004, Zhongshi's secured bank loans amounted to approximately RMB100 million, which carried interest at a fixed rate of 5.49% per annum and was secured by the land use right included in its properties under development amounting to approximately RMB36 million. Apart from the inter-company balance due to Merry World Associates Limited, a fellow subsidiary, it did not have any bank loan or other borrowing as at both 31 December 2005 and 31 December 2006.

Gearing ratio

As at 31 December 2004, Zhongshi's gearing ratio calculated on the basis of total bank loans of RMB100 million and total assets of approximately RMB229 million was 0.44.

Foreign exchange risk management

The business activities and operation of Zhongshi were in the PRC, with revenue and expenditure denominated in Renminbi. It did not have significant foreign currency exposure.

Employees and remuneration policies

Zhongshi employed a total of 25, 51 and 41 employees at 31 December 2004, 2005 and 2006 respectively. Employee's remuneration are determined in accordance with nature of their duties and remain competitive under current market trend.

The employees of Zhongshi are members of a state-managed retirement benefits scheme operated by the PRC. Zhongshi is required to contribute certain percentage of its payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of Zhongshi with respect to the retirement benefits scheme is to make the required contributions.

In addition, the Company had a share option scheme under which the Company may grant options to eligible employees of the Company and its subsidiaries including Zhongshi to subscribe for shares in the Company.

Capital structure

At 1 January 2004, 31 December 2004, 31 December 2005 and 31 December 2006, the paid-in registered capital of Zhongshi was RMB80 million.

Capital commitment and contingent liabilities

At 31 December 2004, there was capital commitment contracted for but not provided for of approximately RMB104 million and capital commitment authorised but not contracted for of approximately RMB76 million. At both 31 December 2005 and 31 December 2006, there was no capital commitment.

Zhongshi did not have any contingent liability at 31 December 2004, 31 December 2005 and 31 December 2006.

Acquisition of Xian PRC Company and Luoyang PRC Company

To further enhance the Group's property development business in the PRC, the Group had through Zhongshi entered into two agreements for the acquisitions of 52% of the equity interest in the Xian PRC Company at a consideration of RMB25.6 million and the entire equity interest in the Luoyang PRC Company at a consideration of approximately RMB26.7 million respectively from two subsidiaries of CCHG, the ultimate holding company of the Company. In particular, the acquisition of the Luoyang PRC Company enables Zhongshi to participate in the land reserve development businesses of CCHG.

Financial effect of the Zhongshi Acquisition

Net asset value

Set out in Appendix III to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the financial impact of the Zhongshi Acquisition on the assets and liabilities of the Group, assuming the Zhongshi Acquisition had been taken place on 31 December 2006.

As set out in the pro forma statement of assets and liabilities of the Enlarged Group in Appendix III to this circular, the net assets of the Enlarged Group was decreased by HK$24,000,000. The adjustment reflects the consideration paid for the acquisition of the Zhongshi Sale Equity on the assumption that such consideration is not required to be adjusted.

Earnings

Before the completion of the Zhongshi Acquisition, Zhongshi is a 70% owned subsidiary of the Company. Upon completion of the Zhongshi Acquisition, Zhongshi will become a wholly-owned subsidiary of the Group and no attribution to the minority shareholder will be made thereafter.

REASONS FOR AND BENEFIT OF THE ZHONGSHI ACQUISITION

The Directors consider that the Zhongshi Acquisition will enable the Group to leverage on the property development expertise and experience of Zhongshi in the PRC market and Zhongshi will be acting as the platform for the furtherance of the Group's property development business in the PRC.

As the Directors expected that the growth in the PRC economy will remain robust in future and the Group considered that the value of land resources in the PRC will continue to grow, the Zhongshi Acquisition will enable the Group to maximise any future contributions from Zhongshi to the Group, gain full control on the management structure of Zhongshi and provide greater flexibility on any future financing arrangement of Zhongshi.

The Directors believe that the terms of the Zhongshi Acquisition are fair and reasonable and in the interests of the Shareholders as a whole.

REQUIREMENTS OF THE LISTING RULES

The Zhongshi Acquisition constitutes a major transaction for the Company under the Listing Rules. Given that the Zhongshi Vendor is a substantial shareholder of a subsidiary of the Company (i.e. owner of 30% of the registered capital of Zhongshi), the Zhongshi Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

The Zhongshi Vendor and its associates are required to abstain from voting on the resolution approving the Zhongshi Acquisition to be proposed at EGM. To the best knowledge of the Directors, none of the Zhongshi Vendor and its associates holds any Shares as at the Latest Practicable Date and on such basis, no Shareholder is required to abstain from voting at the EGM.

GENERAL

The principal activities of the Group are property investment, property development, trade and production of cement, and investment holding in Hong Kong and the PRC.

EGM

The Company will convene the EGM at 11:30 a.m. on Friday, 8 June 2007 at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong to consider the Zhongshi Acquisition. A notice of the EGM is set out on pages 112 to 113 of this circular.

A form of proxy for use at the EGM is also enclosed. If you are not able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar Computershare Hong Kong Investor Services Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

POLL PROCEDURE

Pursuant to article 76 of the Articles, at any general meeting 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 authorised 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 authorised 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.

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders taken at the EGM will be taken by poll, the results of which will be announced on the next business day after the EGM.

RECOMMENDATION

The Independent Board Committee comprising three independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Lao Youan, has been established to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Zhongshi Acquisition. Your attention is drawn to the advice of the Independent Board Committee set out in its letter set out on page 14 of this circular. Your attention is also drawn to the letter of advice from CIMB-GK to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Zhongshi Acquisition set out on page 15 to page 19 in this circular.

The Independent Board Committee, having taken into account the advice of CIMB-GK, considers that the Zhongshi Acquisition is on normal commercial terms and in the best interest of the Company and the Shareholders as a whole. The Independent Board Committee also considers that the terms of the Zhongshi Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Zhongshi Acquisition at the EGM.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
China Chengtong Development Group Limited
Zhang Guotong
Managing Director

The following is a full text of the letter from the Independent Board Committee prepared for the propose of inclusion in 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)

18 May 2007

To the Independent Shareholders

MAJOR AND CONNECTED TRANSACTION
in respect of the proposed acquisition of 30% interest in a 70% owned subsidiary from a connected person

Dear Sir or Madam,

We refer to the circular issued by the Company to its Shareholders and dated 18 May 2007 ("**Circular**") of which this letter forms part. Terms defined in the Circular have the same meanings when used in this letter unless the context otherwise requires.

Under the Listing Rules, the Zhongshi Acquisition constitutes a connected transaction for the Company and is thus subject to the approval of the Independent Shareholders at the EGM.

We have been appointed by the Board to consider the terms of the Zhongshi Acquisition and to advise the Independent Shareholders in connection therewith and as to whether, in our opinion, such terms are fair and reasonable so far as the Independent Shareholders are concerned. CIMB-GK has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from CIMB-GK as set out in the Circular. Having considered the principal factors and reasons considered by, and the advice of, CIMB-GK as set out in its letter of advice, we consider that the terms of the Zhongshi Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and is in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution approving the Zhongshi Acquisition at the EGM.

Yours faithfully,
For and on behalf of
Independent Board Committee
Kwong Che Keung, Gordon Tsui Yiu Wa, Alec Lao Youan
Independent non-executive Directors

The following is the full text of a letter of advice prepared by CIMB-GK to the Independent Board Committee for the purpose of inclusion in this circular:

CIMB
CIMB-GK Securities (HK) Limited

25/F Central Tower
28 Queen's Road Central
Hong Kong

18 May 2007

To the independent board committee and the independent shareholders of
China Chengtong Development Group Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RESPECT OF THE PROPOSED ACQUISITION OF 30% INTEREST IN A 70% SUBSIDIARY FROM A CONNECTED PERSON

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Zhongshi Acquisition, details of which are set out in a circular ("Circular") to the Shareholders dated 18 May 2007, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in this circular unless the context otherwise requires.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Tsui Yiu Wa, Alec and Mr. Lao Youan, has been established to advise the Independent Shareholders as to whether the terms of the Zhongshi Acquisition are fair and reasonable and whether the Zhongshi Acquisition is in the interests of the Company and the Shareholders as a whole.

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from the Circular.

We consider that we have reviewed sufficient information and documents to satisfy ourselves that we have a reasonable basis to assess the fairness and reasonableness of the terms of the Zhongshi Acquisition in order to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Company, Zhongshi or any of its respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the fairness and reasonableness of the Zhongshi Acquisition, we have taken into account the following principal factors and reasons:

Background and reasons

On 27 March 2007, CCPGL, a wholly-owned subsidiary of the Company, entered into the Zhongshi Acquisition Agreement with the Zhongshi Vendor regarding the Zhongshi Acquisition. CCPGL and the Zhongshi Vendor currently owns a 70% and 30% interests in Zhongshi respectively. Following completion of the Zhongshi Acquisition, Zhongshi will be wholly-owned by the Group. Zhongshi is principally engaged in property development and investment management. Zhongshi is the developer of a residential/ commercial development project known as City of Mergence located at Nos. 9 and 11, Baiwanzhuang Dajie, Xicheng District, Beijing, the PRC ("City of Mergence"). As advised by the Company, Zhongshi was principally engaged in the development of City of Mergence in the past three years. As noted from the accountants' report of Zhongshi as set out in Appendix II of this Circular, the aggregated net profit of Zhongshi for the three years ended 31 December 2006 was approximately RMB42.0 million. To further enhance the Group's property development business in the PRC, the Group had through Zhongshi entered into two agreements for the acquisitions of 52% of the equity interest in the Xian PRC Company at a consideration of RMB25.6 million and the entire equity interest in the Luoyang PRC Company at a consideration of approximately RMB26.7 million respectively from two subsidiaries of CCHG, the ultimate holding company of the Company. These acquisitions (subject to completion) will increase Zhongshi's land reserve.

The Zhongshi Acquisition allows the Group to fully control Zhongshi, which, in the opinion of the Directors, has the expertise and experience in property development in the PRC market. Hence, the Directors intend that Zhongshi will be acting as the platform for the expansion of the Group's property development business in the PRC in the future. As the Directors expected that the growth in the PRC economy will remain robust in the future and the Group considered that the value of land resources in the PRC will continue to grow, the Zhongshi Acquisition will enable the Group to maximise any future contributions from Zhongshi to the Group, gain full control on the management structure of Zhongshi and provide greater flexability on any future financing arrangement of Zhongshi.

As noted from the annual report of the Company for the year ended 31 December 2006, the Group's turnover was mainly attributable to the sales revenue from City of Mergence. Based on the accountants' report of Zhongshi as set out in Appendix II of this Circular, the net profits of Zhongshi contributable by City of Mergence were approximately HK$7.1 million and HK$40.3 million for the two years ended 31 December 2006.

In view of the foregoing, we consider that the entering into of the Zhongshi Acquisition is in line with the business scope of the Company and provides an opportunity for the Company to increase its shareholding in Zhongshi. Accordingly, we consider the entering into of the Zhongshi Acquisition is in the interests of the Company and the Shareholders as a whole.

The Zhongshi Consideration

Basis of determination

Subject to adjustments as described below, the consideration for the Zhongshi Acquisition payable by CCPGL to the Zhongshi Vendor is RMB24,000,000 ("Zhongshi Consideration") (subject to adjustment) and will be paid in cash by internal resources as follows:

(a) RMB16,800,000 (i.e. 70% of the Zhongshi Consideration) is payable within 7 days from the date of the Zhongshi Acquisition Agreement (i.e. on or before 2 April 2007); and

(b) on the basis that the Zhongshi Consideration is not required to be adjusted, RMB7,200,000 (i.e. 30% of the Zhongshi Consideration) shall be payable within 45 days of the issuance of the Zhongshi Audited Account.

The Directors confirm that the Zhongshi Consideration was arrived at after arm's length negotiations between the parties to the Zhongshi Acquisition Agreement with reference to the total registered capital of RMB80,000,000 of Zhongshi.

Based on the accountants' report of Zhongshi as set out in Appendix II of this Circular, the audited net asset value ("NAV") of Zhongshi as at 31 December 2006 was approximately RMB80.7 million. Based on the audited NAV of Zhongshi as at 31 December 2006, as adjusted for the valuation surplus of approximately RMB3.5 million derived with reference to the valuation on the unsold domestic and commercial units and car parking spaces of City of Mergence ("Valuation") performed by S.H. NG & Co., LTD., an independent valuer ("Independent Valuer"), the Zhongshi Consideration represents a discount of approximately 4.96% to the 30% attributable interest in the unaudited adjusted NAV of Zhongshi as at 31 December 2006 of approximately RMB25.3 million ("Adjusted NAV").

As noted from the valuation report as set out in Appendix IV to the Circular, in performing the Valuation, the unsold domestic and commercial units and car parking spaces of City of Mergence have been valued by the Independent Valuer on an open market basis with reference to comparable market transactions. We have been advised by the Independent Valuer that given the particulars of the unsold domestic and commercial units and car parking spaces, the above valuation methodologies are commonly used in arriving at the Valuation. As Zhongshi is principally engaged in property development and investment and it is a common market practice to value a property company based on its asset base, we consider it appropriate to make reference to the Adjusted NAV of Zhongshi in determining the fairness of the Zhongshi Consideration.

Adjustments

Pursuant to the Zhongshi Acquisition Agreement, the Zhongshi Vendor and CCPGL shall jointly procure the auditors responsible for the auditing of the Zhongshi Audited Accounts to make available the Zhongshi Audited Accounts to the parties. The Zhongshi Audited Account will include the income statement of City of Mergence for the period up to 31 December 2007 and its balance sheet as at 31 December 2007, as adjusted by revaluation of unsold units, if any. The Zhongshi Consideration is subject to adjustment (the "Consideration Adjustment") if the after-tax profit as shown on the Zhongshi Audited Accounts differs from RMB40,000,000 (determined by the Directors with reference to the estimated aggregated profit for the City of Mergence project).

We note that if the amount of the after-tax profits as shown on the Zhongshi Audited Accounts is equal to RMB40,000,000, no adjustment will be made to the Zhongshi Consideration. If the amount of the after-tax profits as shown on the Zhongshi Audited Accounts is more than RMB40,000,000, the Zhongshi Consideration will be adjusted upward by 30% of the excess of such amount over RMB40,000,000, subject to a maximum adjustment of RMB3,000,000. If the amount of the after-tax profits as shown on the Zhongshi Audited Accounts is less than RMB40,000,000, the Zhongshi Consideration will be reduced by 30% of the difference between such amount and RMB40,000,000. If there is a loss after-tax as shown on the Zhongshi Audited Accounts, the Zhongshi Consideration will be reduced by 30% of the aggregate of the absolute value of such amount and RMB40,000,000.

As advised by the Company, Zhongshi was principally engaged in the development of City of Mergence in the past three years. As noted from the accountants' report of Zhongshi as set out in Appendix II of this Circular, the aggregated net profit of Zhongshi for the three years ended 31 December 2006 amounted to approximately RMB42.0 million, which was mainly attributable to the contribution from City of Mergence. The Consideration Adjustment would take into account any profit or loss attributable to City of Mergence for the year ended 31 December 2007. As the upward adjustment is subject to a maximum amount of RMB3,000,000, whereas no limit is set for the downward adjustment should the after-tax profit as shown on the Zhongshi Audited Accounts be less than RMB40,000,000, we consider the Consideration Adjustment as a whole is fair and reasonable.

Views

Having taken into account the above consideration, we consider that the Zhongshi Consideration, as adjusted by the Consideration Adjustment, if necessary, is fair and reasonable so far as the Company and the Independent Shareholders of the Company are concerned.

POSSIBLE FINANCIAL EFFECTS

Net asset value and earnings

Upon completion of the Zhongshi Acquisition, Zhongshi will become a 100% indirect subsidiary of the Company. When comparing the Zhongshi Consideration of RMB24 million (before taking into account of the Consideration Adjustment) with the 30% attributed interest in the Adjusted NAV of Zhongshi as at 31 December 2006 of approximately RMB25.3 million, the Zhongshi Acquisition should not have a material effect to the equity attributable to Shareholders.

Working Capital

As advised by the Company, the Zhongshi Consideration of RMB24 million will be funded by internal resource of the Group. Based on the annual report of the Company for the year ended 31 December 2006, the Company has a cash reserve of approximately HK$117.4 million. We also noted from the Company's circular dated 1 March 2007 that approximately 80% of the net proceeds from the Company's rights issue of HK$194 million will be used for investment opportunities in Hong Kong and the PRC, including the Group's property development business in the PRC. Given the above, we concur with the view of the Directors and consider that the Zhongshi Acquisition will not have a material adverse effect to the cash position of the Group.

RECOMMENDATION

Having considered the background and reasons, the Zhongshi Consideration and the possible financial effects of the Zhongshi Acquisition, we consider the Zhongshi Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Zhongshi Acquisition.

Yours faithfully,
For and on behalf of
CIMB-GK Securities (HK) Limited

Alex Lau
Executive Vice President

Heidi Cheng
Senior Vice President

SUMMARY OF FINANCIAL RESULTS

Set out below is a summary of the audited consolidated income statements and financial positions for each of the three financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 as extracted from the annual reports of the Group for the respective years. The auditors' reports as set out in the annual reports of the Group for each of the three years ended 31 December 2006 were unqualified.

	Results of the Group for the year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
			(restated)
			(note)
Turnover			
from continuing operations	247,263	114,053	36
from discontinued operations	44,151	139,719	210,956
	291,414	253,772	210,992
Profit (loss) before taxation	41,916	(18,846)	106,814
Taxation (charge) credit	(17,424)	(3,359)	4,210
Profit (loss) for the year from continuing operations	24,492	(22,205)	111,024
Profit (loss) for the year from discontinued operations	(1,853)	(31,480)	(16,883)
Profit (loss) for the year	22,639	(53,685)	94,141
Minority interests	(6,686)	7,688	5,573
Profit (loss) attributable to shareholders of the Company	15,953	(45,997)	99,714
Total dividend and distribution	–	–	–
Dividend and distribution per share	–	–	–
Earnings (loss) per share			
From continuing and discontinued operations			
–Basic	HK 0.88 cent	HK(2.73) cents	HK 5.91 cents
–Diluted	HK 0.88 cent	N/A	HK 5.90 cents
From continuing operations			
–Basic	HK 0.98 cent	HK(0.86) cent	HK 6.58 cents
–Diluted	HK 0.98 cent	N/A	HK 6.57 cents

Note: Owing to the discontinuance of the Group's trade and manufacture of cement and trade of goods in 2006, certain amounts of the consolidated result for the year ended 31 December 2004 has been restated to conform to the presentation for the year ended 31 December 2006.

	Assets and liabilities of the Group as at 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	529,759	694,132	628,506
Less:			
Total liabilities	(128,704)	(408,800)	(296,125)
Minority interests	(28,243)	(32,266)	(39,362)
Total net assets attributable to shareholders of the Company	372,812	253,066	293,019

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is extracted from the Group's 2006 annual report relating to audited financial statements for the year ended 31 December 2006:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

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

CONSOLIDATED BALANCE SHEET

At 31 December 2006

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

	Notes	2006 HK$'000	2005 HK$'000
Non-current liabilities			
Deferred taxation	31	3,937	5,694
Net assets		401,055	285,332
Capital and reserves			
Share capital	33	202,350	168,710
Reserves		170,462	84,356
Equity attributable to shareholders of the Company		372,812	253,066
Minority interests		28,243	32,266
		401,055	285,332

BALANCE SHEET
At 31 December 2006

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital re-demption reserve HK$'000	Special capital reserve HK$'000 (note)	Exchange reserve HK$'000	Legal surplus HK$'000	Share options reserve HK$'000	Accu-mulated (losses) profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005	168,710	939,273	402	–	284	565	4,319	(820,534)	293,019	39,362	332,381
Exchange realignment recognised directly in equity	–	–	–	–	1,652	–	–	–	1,652	592	2,244
Loss for the year	–	–	–	–	–	–	–	(45,997)	(45,997)	(7,688)	(53,685)
Total recognised income (expense) for the year	–	–	–	–	1,652	–	–	(45,997)	(44,345)	(7,096)	(51,441)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	4,392	–	4,392	–	4,392
At 31 December 2005 and 1 January 2006	168,710	939,273	402	–	1,936	565	8,711	(866,531)	253,066	32,266	285,332
Exchange realignment	–	–	–	–	4,813	–	–	–	4,813	1,247	6,060
Share of changes in equity in a jointly controlled entity recognised directly in equity	–	–	–	–	(111)	–	–	–	(111)	–	(111)
Net income recognised directly in equity	–	–	–	–	4,702	–	–	–	4,702	1,247	5,949
Profit for the year	–	–	–	–	–	–	–	15,953	15,953	6,686	22,639
Total recognised income for the year	–	–	–	–	4,702	–	–	15,953	20,655	7,933	28,588
Capital Reduction *(note)*	–	(939,273)	–	965	–	–	–	938,308	–	–	–
Issue of new shares	33,200	66,400	–	–	–	–	–	–	99,600	–	99,600
Transaction costs attributable to issue of new shares	–	(694)	–	(965)	–	–	–	–	(1,659)	–	(1,659)
Issue of shares upon exercise of share options	440	1,439	–	–	–	–	(729)	–	1,150	–	1,150
Share option forfeited	–	–	–	–	–	–	(916)	916	–	–	–
Dividend paid to minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	(11,956)	(11,956)
At 31 December 2006	202,350	67,145	402	–	6,638	565	7,066	88,646	372,812	28,243	401,055

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

(i) should not be treated as realised profits for the purpose of Section 79B of the Companies Ordinance;

(ii) should, for so long as the Company remained a listed company, be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Companies Ordinance or any statutory re-enactment or modification thereof.

It was also provided in the Order that, notwithstanding the above undertaking, (a) the Special Capital Reserve might be applied for the same purposes as a share premium account might be applied; (b) the amount standing to the credit of the Special Capital Reserve might be reduced by the aggregate of any increase in the paid up share capital or the amount standing to the credit of the share premium account of the Company resulting from the payment up of shares by the receipt of new consideration or upon a capitalisation of distributable reserve after the Capital Reduction becoming effective; and (c) in the event that the amount of the Special Capital Reserve is so reduced, the Company shall be at liberty to transfer the amount of any such reduction to the general reserves of the Company and the same shall become available for distribution. During the year ended 31 December 2006, the Special Capital Reserve is applied to set off with the transaction cost attributable to the issue of new shares.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. GENERAL

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

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

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Revenue recognition

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

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

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

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

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

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

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

Investment properties

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

Property, plant and equipment

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

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

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

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

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

Subsidiaries

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

Investments in associates

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

Investment in a jointly controlled entity

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

Non-current assets held for sale

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

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

Inventories

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

Properties held for sales

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

Borrowing costs

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

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

Impairment of assets

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

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

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

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

Taxation

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

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

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

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

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

Foreign currencies

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

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

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

Operating leases

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

The Group as lessor

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

The Group as lessee

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

Financial instruments

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

Financial assets

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

Loans and receivables

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

Financial liabilities and equity

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

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

Financial liabilities

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

Equity instruments

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

Derecognition

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

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

Provisions

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

Retirement benefits costs

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

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

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

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

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

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

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

Credit risk

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

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

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

5. SEGMENT INFORMATION

Business Segments

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

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

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

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

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

Geographical Segments

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

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

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

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

6. OTHER INCOME

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

7. FINANCE COSTS

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

8. TAXATION

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

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

A statement of reconciliation of taxation is as follows:

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

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

9. DISCONTINUED OPERATIONS

Discontinued trade of goods business

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

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

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

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

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

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

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

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

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

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

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

Repudiation of plan to dispose of interest in an associate

As at 31 December 2005, the directors of the Company decided to dispose of the interest in an associate, Goodwill (Overseas) Limited ("Goodwill"). On 11 January 2006, the Group entered into an agreement (the "Disposal Agreement") with an independent third party (the "Purchaser") to dispose of a wholly owned subsidiary of the Company, Price Sales Limited which holds the Group's entire 32% equity interest of Goodwill and the related loan advanced by the Group to Goodwill at a consideration of US$24,701,754 (equivalent to HK$192,674,000).

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

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

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

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

10. PROFIT (LOSS) FOR THE YEAR

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

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

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

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

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

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

(b) Five highest paid individuals

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

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

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

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

12. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

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

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

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

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

From continuing operations

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

Earnings (loss) figures are calculated as follows:

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

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

From discontinued operations

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

13. RETIREMENT BENEFITS SCHEMES

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

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

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

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

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

THE COMPANY

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

15. INVESTMENT PROPERTIES

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
FAIR VALUE		
At beginning of year	86,400	84,870
Transfer of investment properties *(Note)*	(41,490)	–
Decrease in fair value	(1,782)	–
Currency realignment	1,872	1,530
At end of year	45,000	86,400

Analysed by lease term and geographical location:

Medium term leasehold properties situated in Mainland China	45,000	86,400

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

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

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

16. INTERESTS IN SUBSIDIARIES

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

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

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

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

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

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

17. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM AN ASSOCIATE

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

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

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

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

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

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

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

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

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

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

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

The principal investment in jointly controlled entity at 31 December 2006 represents the Company's interest in 50% of registered capital of 湖州萬港聯合置業有限公司 (Huzhou Wangang United Estate Company Limited).

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

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

19. INVENTORIES

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

20. TRADE AND OTHER RECEIVABLES

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

Trade receivables

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

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

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

21. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

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

22. AMOUNTS DUE FROM RELATED COMPANIES

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

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

23. RESTRICTED BANK BALANCE

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

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

24. CASH AND BANK BALANCES

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

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

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

25. TRADE AND OTHER PAYABLES

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

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

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

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

26. PROVISION FOR A LEGAL CLAIM

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

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

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

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

On 1 March 2006, Merry World entered into two settlement agreements (the "Settlement Agreements") with the Plaintiff in relation to Property A and Property C for, among other matters, the transfer of Property A by Merry World to the Plaintiff in pursuant to the judgment and the discontinuance and withdrawal by the Plaintiff of all its claims made and legal proceedings instituted against Merry World in relation to Property C and the confirmation of the title of Merry World in Property C. During the year ended 31 December 2006, the legal procedures for the transfer of Property A were completed.

27. LOAN FROM A RELATED COMPANY

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

28. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

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

29. UNSECURED OTHER LOANS

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

30. SECURED OTHER LOAN

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

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

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

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

31. DEFERRED TAXATION

THE GROUP

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

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

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

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

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

THE COMPANY

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

32. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

33. SHARE CAPITAL

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

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

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

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

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

34. SHARE OPTIONS SCHEME

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

Details of the Scheme are as follows:

(i) Purpose

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

(ii) Participants

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

(iii) Maximum number of shares

(a) 30% limit

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

(b) 10% limit

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

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

(iv) Maximum entitlement of each participant

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

(v) Price of shares

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

(vi) Amount payable upon acceptance of the option

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

(vii) Exercisable periods

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

(viii) Vesting periods

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

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

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

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

(ix) The remaining life of the Scheme

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

(x) Shares available for issue under the Scheme

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

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

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

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

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

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

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

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

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

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

35. RESERVES

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

THE COMPANY

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

36. FAIR VALUE OF OTHER FINANCIAL ASSETS AND LIABILITIES

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

37. COMMITMENTS

(a) Operating lease commitments as lessee

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

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

Leases are negotiated for an average term of four years.

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

(b) Operating leases commitments as lessor

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

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

Leases are negotiated for an average term of five years.

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

38. RELATED PARTY TRANSACTIONS

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

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

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

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

39. POST BALANCE SHEET EVENTS

Proposed rights issue

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

Subsequent acquisition activities

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group – Management discussion and analysis for 2006

Financial Results

The Group recorded a turnover of approximately HK$247 million for the year ended 31 December 2006, an increase of 117% as compared to that for the year ended 31 December 2005. The increase was mainly resulted from the sale revenue of the property development project in Beijing, the PRC of Zhongshi, its subsidiary. The Group recorded a net profit attributable to shareholders of approximately HK$16 million for the year ended 31 December 2006 as compared to a net loss of approximately HK$46 million for the year ended 31 December 2005. It should be noted that the loss for the year ended 31 December 2005 included a provision for legal claim of approximately HK$8.7 million and impairment loss on property, plant and equipment of Suzhou Nanda Cement Company Limited 蘇州南達水泥有限公司 ("**Suzhou Nanda**") of approximately HK$23.8 million.

Business Review

The Company achieved good progress in all business segments in 2006. For development of principal business, it made an investment in the Huzhou Project in Zhejiang Province and acquired a commodity residential development project in Xian to enhance its property development capacity in 2007. In particular, the acquisition of the Luoyang PRC Company is the Group's first attempt to participate in the land reserve development businesses of CCHG, its ultimate controlling shareholder.

On the other hand, the Group lined up with a leading international cement enterprise with the aim of restructuring its cement assets in Suzhou Nanda. The move should be beneficial to the Group such that it can concentrate in the business of land resource development and property development while continuing to enjoy the growth of the cement industry in the PRC.

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

Property Development

Zhongshi

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

For the year ended 31 December 2006, Zhongshi recorded a turnover and pre-tax profit from the sale of units and car-parking space of the City of Mergence amounting to approximately RMB252 million and RMB60 million respectively. In comparison, Zhongshi recorded turnover and pre-tax profit of approximately RMB119 million and RMB10.5 million respectively for the year ended 31 December 2005.

On 27 March 2007, the Group entered into the Zhongshi Acquisition Agreement with Zhongshi Vendor regarding the acquisition of 30% interest in Zhongshi. Zhongshi will become a wholly owned subsidiary of the Group following completion of the Zhongshi Acquisition. The management believes that the move will enable the Group to leverage on the property investment platform of Zhongshi in order to speed up the expansion of the Group's property development business in the PRC. The aggregate of the remuneration payable to and benefits in kind receivable by the Directors will not be varied in consequence of the Zhongshi Acquisition.

Huzhou Land Company

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

Acquisitions of Xian PRC Company and Luoyang PRC Company

To further enhance the Group's property development business in the PRC the Group had through Zhongshi entered into two agreements for the acquisitions of 52% of the equity interest in the Xian PRC Company at a consideration of RMB25.6 million and the entire equity interest in the Luoyang PRC Company at a consideration of approximately RMB26.7 million respectively from two subsidiaries of CCHG.

Property Investments

Li Wan Plaza

During the year under review, the Group entered into two settlement agreements with Guangzhou Sui Nan Building Development Limited putting an end to the disputes and ensuing litigations between them in relation to Zone A ("**Property A**") and Zone C ("**Property C**") both of Level 3, Li Wan Plaza, No. 9 Dexing Lu, Li Wan District, Guangzhou City, Guangdong Province, the PRC. The entering into of the two settlements agreements enables the Group to retain retail area of 5,370 square metres in Property C. It started to contribute rental income to the Group since September 2006.

Price Sales Limited

In January, 2006, the Group entered into a conditional disposal agreement ("**Disposal Agreement**") for the disposal of a wholly owned subsidiary of the Group, Price Sales Limited, and the shareholder's loan to that subsidiary to an independent third party. Price Sales Limited owns 32% interest in Goodwill (Overseas) Limited. The disposal has terminated, the reason for that has already announced. Other than the non-recognition of the gain on the disposal of approximately HK$31.6 million previously expected to have had upon completion of the disposal, it is expected that the termination of the disposal will not have a material adverse financial and operational impact on the Group. Goodwill (Overseas) Limited contributed a net cash income of approximately HK$12 million to the Group in 2006.

Strategic Investment

Suzhou Nanda, a subsidiary that the Group held 71.03% interest and principally engaged in trading and production of cement, had turnover of approximately HK$44 million for the year ended 31 December 2006, representing a decrease of 5% from that in 2005. Loss for the year was approximately HK$1.8 million, whereas a loss of approximately HK$31.5 million was recorded in 2005. On 12 October 2006, the Group entered into a subscription and shareholders' agreement ("**Subscription Agreement**") with Cimpor Inversiones SA ("**Cimpor**") for the establishment of a joint venture company which will act as the vehicle for the furtherance of the sale and production of cement and related ancillary business. The investment of the Group's 20% interest in the joint venture company was made by the transfering Sea-Land Mining Limited, which in turn holds 71.03% interest in the registered capital of Suzhou Nanda. In addition, the joint venture company has entered into an agreement to acquire the 60% equity interest in a company engages in clinker and cement production and related businesses in Shandong province of the PRC in October 2006. The approvals necessary for the acquisition under the agreement are in the course of obtaining the approval from the government of Shandong Province and the procedure is expected to be completed prior to 30 June 2007.

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

Rights issue

On 9 January 2007, the Board announced that the Company proposed to raise approximately HK$200.3 million before expenses by issuing not less than 607,051,490 Shares and to raise not more than approximately HK$203.3 million before expenses by issuing not more than 616,021,490 Shares by way of rights at the subscription price of HK$0.33 per Share on the basis of three rights shares for every ten existing shares in issue on the record date (i.e. 19 March 2007). The resolutions were passed in the extraordinary general meeting of the Company held on 19 March 2007. The dealings in fully paid Shares issued pursuant to the rights issue commenced on 18 April 2007. The Group intends to use the net proceeds from the rights issue as to approximately 20% for general working capital of the Group and approximately 80% for future property development in Hong Kong and the PRC. The Board believed that raising further equity by means of rights issue would allow the Company to strengthen its capital base and provide an opportunity to the shareholders to participate in the growth of the Group.

Outlook

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

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

MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save for the Zhongshi Acquisition, the acquisition of 52% in equity interest in the Xian PRC Company and acquisition of entire equity interest in the Luoyang PRC Company as disclosed in the announcements of the Company dated 22 March 2007 and 25 April 2007, the Directors confirmed that there is no material adverse change in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited accounts of the Group were made up.

INDEBTEDNESS

As at the close of business on 30 April 2007 being the latest practicable date prior to the printing of this circular for the purpose of this indebtedness statement, the Group had outstanding other loans and amount due to a minority shareholder of a subsidiary of approximately HK$7.2 million and HK$4.0 million, respectively.

Save as aforesaid, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30 April 2007 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 committees, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors are of the opinion that after taking into account the Group's cashflow generated from operating activities and the estimated consideration of the Zhongshi Acquisition, the Group has sufficient working capital for its present requirements, for at least the next 12 months from the date of this circular.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu. A copy of the following accountants' report is available for inspection at the place and during the time as specified in the paragraph headed "Documents available for inspection" in appendix V to this circular.

Deloitte.
德勤

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香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

18 May 2007

The Board of Directors
China Chengtong Development Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to 中實投資有限責任公司 ("Zhongshi") for each of the three years ended 31 December 2006 (the "Relevant Periods"), for inclusion in the circular of China Chengtong Development Group Limited (the "Company") dated 18 May 2007 in connection with the proposed acquisition of the 30% equity interest in Zhongshi (the "Circular").

Zhongshi is engaged in property development and was established in the People's Republic of China (the "PRC") on 11 April 1997.

The statutory financial statements of Zhongshi for the two years ended 31 December 2005 and 2006 were prepared in accordance with the applicable accounting principles and financial regulations in the PRC (the "PRC GAAP") and were audited by 北京創紀會計師事務所有限公司. The auditor is certified public accountant registered in the PRC. No audit has been performed on the financial statements of Zhongshi prepared under PRC GAAP for the year ended 31 December 2004.

For the purpose of this report, the management of Zhongshi has prepared financial statements of Zhongshi for the Relevant Periods (the "Underlying Financial Statements") in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have carried out independent audit procedures for the Underlying Financial Statements for the Relevant Periods in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements of Zhongshi for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The preparation of the Underlying Financial Statements is the responsibility of the directors of Zhongshi. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements of Zhongshi, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Zhongshi as at 31 December 2004, 31 December 2005 and 31 December 2006, and the results and cash flows of Zhongshi for each of the three years ended 31 December 2006.

I. FINANCIAL INFORMATION

Income statements

		Year ended 31 December		
		2006	**2005**	**2004**
	NOTES	*RMB*	*RMB*	*RMB*
Turnover		252,181,048	118,804,784	–
Cost of sales		(185,812,810)	(104,651,891)	–
Gross profit		66,368,238	14,152,893	–
Other income	*6*	1,159,021	2,171,972	230,412
Selling expenses		(6,790,944)	(5,683,894)	(4,738,107)
Administrative expenses		(549,282)	(115,374)	(995,635)
Finance costs	*7*	–	–	–
Profit (loss) before taxation		60,187,033	10,525,597	(5,503,330)
Taxation	*8*	(19,861,721)	(3,473,447)	105,958
Profit (loss) for the year	*9*	40,325,312	7,052,150	(5,397,372)
Dividend paid	*11*	40,000,000	–	–
Earnings (loss) per share	*12*	N/A	N/A	N/A

Balance sheets

		As at 31 December		
		2006	**2005**	**2004**
	NOTES	*RMB*	*RMB*	*RMB*
Non-current assets				
Property, plant and equipment	*13*	328,655	356,116	372,796
Deferred taxation	*14*	–	–	105,958
		328,655	356,116	478,754
Current assets				
Properties under development	*15*	–	–	173,923,352
Properties held for sale		49,522,841	235,335,651	–
Trade and other receivables	*16*	1,223,134	24,949,298	7,822,653
Tax recoverable		–	3,295,851	–
Amount due from a related company	*17*	3,900,000	4,900,000	4,900,000
Bank balances and cash	*18*	66,273,287	73,919,716	42,081,199
		120,919,262	342,400,516	228,727,204
Current liabilities				
Trade and other payables	*19*	22,773,133	65,065,475	35,580,416
Amount due to a fellow subsidiary	*20*	164,785	–	–
Deposits received on sale of properties		1,055,313	197,327,653	20,314,188
Tax payable		16,565,870	–	–
		40,559,101	262,393,128	55,894,604
Net current assets		80,360,161	80,007,388	172,832,600
Total assets less current liabilities		80,688,816	80,363,504	173,311,354
Non-current liabilities				
Bank loans, secured	*21*	–	–	100,000,000
Net assets		80,688,816	80,363,504	73,311,354
Capital and reserves				
Registered capital	*22*	80,000,000	80,000,000	80,000,000
Reserves		688,816	363,504	(6,688,646)
		80,688,816	80,363,504	73,311,354

Statements of changes in equity

	Registered capital *RMB*	Statutory reserves *RMB*	(Accumulated losses) retained profits *RMB*	Total *RMB*
At 1 January 2004	80,000,000	345,494	(1,636,768)	78,708,726
Loss for the year	–	–	(5,397,372)	(5,397,372)
At 31 December 2004 and 1 January 2005	80,000,000	345,494	(7,034,140)	73,311,354
Profit for the year	–	–	7,052,150	7,052,150
At 31 December 2005 and 1 January 2006	80,000,000	345,494	18,010	80,363,504
Profit for the year	–	–	40,325,312	40,325,312
Dividend paid	–	–	(40,000,000)	(40,000,000)
Transfer	–	3,611,251	(3,611,251)	–
At 31 December 2006	80,000,000	3,956,745	(3,267,929)	80,688,816

According to the PRC law and regulation, Zhongshi is required to appropriate certain percentage of its profit as reported in the statutory financial statements prepared under the PRC GAAP to the statutory reserves, which can only be used on capital expenditure for the collective welfare of the employees.

In accordance with the latest PRC relevant laws and regulations, from 1 January 2006, appropriation to statutory public welfare fund is no longer required and the unutilised balance at 1 January 2006 is transferred to the Statutory Surplus Reserve.

Cash flow statements

	Year ended 31 December		
	2006	2005	2004
	RMB	*RMB*	*RMB*
Cash flows from operating activities			
Profit (loss) before taxation	60,187,033	10,525,597	(5,503,330)
Adjustments for:			
Interest income	(1,118,454)	(1,255,256)	(70,412)
Loss on disposal of property, plant and equipment	–	23,870	–
Depreciation of property, plant and equipment	106,241	–	36,310
Operating cash flows before working capital changes	59,174,820	9,294,211	(5,537,432)
Increase in properties under development	–	(108,028,654)	(36,949,644)
Decrease in properties held for sale	185,812,810	104,651,891	–
Decrease (increase) in trade and other receivables	23,726,164	(17,126,645)	(6,336,549)
(Decrease) increase in trade and other payables	(42,292,342)	(24,752,609)	1,131,920
(Decrease) increase in deposits received on sale of properties	(196,272,340)	177,013,465	20,314,188
Cash flows from (used in) operations	30,149,112	141,051,659	(27,377,517)
Taxation paid	–	(6,663,340)	–
Net cash from (used in) operating activities	30,149,112	134,388,319	(27,377,517)
Cash flows from investing activities			
Repayment from (advances to) a related company	1,000,000	–	(3,363,837)
Advance to a minority shareholder	(1,300,000)	–	–
Repayment from a minority shareholder	1,300,000	–	–
Disposal of investments in subsidiaries not consolidated	–	–	7,600,000
Purchases of property, plant and equipment	(78,780)	(101,168)	(35,350)
Interest received	1,118,454	1,901,491	328,356
Net cash from investing activities	2,039,674	1,800,323	4,529,169
Cash flows from financing activities			
Dividend paid	(40,000,000)	–	–
Interest paid	–	(4,350,125)	(5,602,083)
Bank loans raised	–	–	100,000,000
Advance from a fellow subsidiary	164,785	–	–
Repayment of bank loans	–	(100,000,000)	–
Repayment of loan from a related company	–	–	(31,400,000)
Net cash (used in) from financing activities	(39,835,215)	(104,350,125)	62,997,917
Net (decrease) increase in cash and cash equivalents	(7,646,429)	31,838,517	40,149,569
Cash and cash equivalents at beginning of year	73,919,716	42,081,199	1,931,630
Cash and cash equivalents at end of year, representing bank balances and cash	66,273,287	73,919,716	42,081,199

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Zhongshi is a limited liability company established under the law of the PRC. The directors of Zhongshi regard the immediate holding company as at 31 December 2004, 2005 and 2006 to be Talent Dragon Limited, a company incorporated in British Virgin Islands, and the ultimate holding company as at 31 December 2004, 2005 and 2006 to be China Chengtong Development Group Limited, a company incorporated in Hong Kong.

Zhongshi is engaged in the business of property development.

The Financial Information is presented in Renminbi ("RMB") which is also the functional currency of Zhongshi.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 or 1 January 2006. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, Zhongshi has early adopted all these new HKFRSs consistently throughout the Relevant Periods.

Zhongshi has not early applied the following new standards, amendment and interpretations that have been issued but are not yet effective. The directors of Zhongshi have considered the following new standards, amendment and interpretations but do not expect they will have a material impact on how the results of operations and financial position of Zhongshi are prepared and presented.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost convention and has been prepared in accordance with the significant accounting policies set out below which conform with HKFRSs, as explained below.

Revenue recognition

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 Zhongshi; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Furniture, fixtures and equipment	10% to 20%
Motor vehicle	12%

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 Relevant Periods in which the item is derecognised.

Properties under development/properties held for sales

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

Borrowing costs

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

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

Impairment of assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

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

The tax currently payable is based on taxable profit for the Relevant Periods. Taxable profit differs from profit as reported in the income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Zhongshi'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 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.

Operating leases

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

Zhongshi as lessee

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

Financial instruments

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

Financial assets

Zhongshi'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, bank balances and amount due from a related company) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of Zhongshi after deducting all of its 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, bank loans and amount due to a fellow subsidiary are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

Retirement benefits costs

Payments to the defined contribution retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Zhongshi's major financial instruments include trade and other receivables, bank balances and cash, amount due from a related company, trade and other payables, bank loans and amount due to a fellow subsidiary. 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 of Zhongshi manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

Zhongshi's cash flow interest rate risk primarily relates to bank balance and fair value interest rate risk relates to fixed-rate bank loans.

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

Credit risk

Zhongshi's credit risk is primarily attributable to trade and other receivables and amounts due from a related company. The maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2004, 2005 and 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the respective balance sheets. In order to minimise the credit risk, the management of Zhongshi has reviewed the recoverable amount of each individual trade debt at each balance sheet date during the Relevant Periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Zhongshi consider that Zhongshi's credit risk is significantly reduced.

Zhongshi exposed to concentration of credit risk on the amount due from a related party. However, the risk is low as the management of Zhongshi reviewed the recoverable amount of the outstanding balance at each balance sheet date during the Relevant Periods and considered that no impairment loss is necessary for this amount.

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

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Zhongshi was solely engaged in the business of property development. Analyses of Zhongshi's turnover and results as well as analyses of carrying amount of segment assets and additions to property, plant and equipment by geographical market have not been presented as they are substantially generated from and situated in the PRC.

6. OTHER INCOME

	Year ended 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Interest income	1,118,454	1,255,256	70,412
Others	40,567	916,716	160,000
	1,159,021	2,171,972	230,412

7. FINANCE COSTS

	Year ended 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Interest on bank loans wholly repayable within five years	–	4,350,125	5,602,083
Less: Amounts capitalised in the cost of properties under development	–	(4,350,125)	(5,602,083)
	–	–	–

8. TAXATION

The taxation charge (credit) represents the PRC enterprise income tax calculated at 33% of the estimated assessable profit for the Relevant Periods.

	Year ended 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
The taxation charge (credit) comprises:			
Current tax	19,861,721	3,367,489	–
Deferred taxation *(note 16)*	–	105,958	(105,958)
Taxation charge (credit) for the year	19,861,721	3,473,447	(105,958)

A statement of reconciliation of taxation is as follows:

	Year ended 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Profit (loss) before taxation	60,187,033	10,525,597	(5,503,330)
Tax rate of 33% applicable to Zhongshi	19,861,721	3,473,447	(1,816,099)
Tax effect of expenses that are not deductible for tax purposes	–	–	1,710,141
Taxation charge (credit) for the year	19,861,721	3,473,447	(105,958)

9. PROFIT (LOSS) FOR THE YEAR

	Year ended 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Profit (loss) for the year is arrived at after charging:			
Depreciation of property, plant and equipment	106,241	–	36,310
Loss on disposal of property, plant and equipment	–	23,870	–
Minimum lease payments in respect of rented premises	246,700	–	–
Contributions to retirement benefits schemes (including directors' emoluments)	245,604	207,449	158,775
Other staff costs (including directors' emoluments)	2,267,636	172,887	88,983
Total staff costs	2,513,240	380,336	247,758
and after crediting:			
Interest income excluding interest income on the temporary investment of specific borrowings of Nil (2005: RMB646,235, 2004: RMB257,944) which has been capitalised in properties under development	1,118,454	1,255,256	70,412

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

	Year ended 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Other staff costs	–	3,457,734	1,779,658
Depreciation of property, plant and equipment	–	93,978	41,316
Minimum lease payments in respect of rented premises	–	266,100	205,000

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(i) Directors' remuneration

	Year ended 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Fees	–	–	–
Other emoluments	769,331	798,996	664,016
Contributions to retirement benefits schemes	63,976	55,279	23,443
	833,307	854,275	687,459

(ii) Employees' remuneration

The five highest paid individuals included 2 (2005: 2, 2004: 1) directors of Zhongshi and the details of whose emoluments are included above. The details of the emoluments of the remaining 3 (2005: 3, 2004: 4) individuals are as follows:

	Year ended 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Salaries and other allowances	220,339	351,061	337,523
Contributions to retirement benefits schemes	63,083	60,548	93,702
	283,422	411,609	431,225

During the Relevant Periods, no remuneration was paid by Zhongshi to its directors or the five highest paid employees as an inducement to join or upon joining Zhongshi or as compensation for loss of office. No directors of Zhongshi have waived any remuneration during the Relevant Periods.

11. DIVIDEND PAID

	Year ended 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Dividend paid	40,000,000	–	–

The rate of dividend per share and the number of shares ranking for dividend are not presented as Zhongshi did not have any issued share capital and such information is not meaningful having regard to the purpose of this report.

12. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is not presented as Zhongshi did not have any issued share capital during the Relevant Periods.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment *RMB*	Motor vehicle *RMB*	Total *RMB*
COST			
At 1 January 2004	198,979	408,900	607,879
Additions	35,350	–	35,350
At 31 December 2004 and 1 January 2005	234,329	408,900	643,229
Additions	101,168	–	101,168
Disposals	(28,780)	–	(28,780)
At 31 December 2005 and 1 January 2006	306,717	408,900	715,617
Additions	78,780	–	78,780
At 31 December 2006	385,497	408,900	794,397
ACCUMULATED DEPRECIATION			
At 1 January 2004	139,096	53,711	192,807
Provided for the year	28,047	49,579	77,626
At 31 December 2004 and 1 January 2005	167,143	103,290	270,433
Provided for the year	44,399	49,579	93,978
Eliminated on disposals	(4,910)	–	(4,910)
At 31 December 2005 and 1 January 2006	206,632	152,869	359,501
Provided for the year	56,662	49,579	106,241
At 31 December 2006	263,294	202,448	465,742
NET BOOK VALUES			
At 31 December 2004	67,186	305,610	372,796
At 31 December 2005	100,085	256,031	356,116
At 31 December 2006	122,203	206,452	328,655

14. DEFERRED TAXATION

The following are the major deferred tax assets provide and movement thereon during the Relevant Periods.

	As at 31 December		
	2006 *RMB*	**2005** *RMB*	**2004** *RMB*
At beginning of year	–	105,958	–
(Charge) credit to income for the year	–	(105,958)	105,958
At end of year	–	–	105,958

At 31 December 2004, Zhongshi had unused tax losses of RMB321,085 available for offset against future profits. A deferred tax asset has been recognised for such losses.

15. PROPERTIES UNDER DEVELOPMENT

	RMB
COST	
At 1 January 2004	97,623,053
Additions	76,300,299
At 31 December 2004 and 1 January 2005	173,923,352
Additions	166,064,190
Transfer to properties held for sale	(339,987,542)
At 31 December 2005	–

At 31 December 2004, the properties under development are due for completion within one year. The properties are situated in the PRC and are held under long leases.

At 31 December 2004, the land use right included in properties under development amounting to RMB35,979,443 have been pledged as securities for Zhongshi's bank loans (see note 21).

16. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Trade receivables	206,000	7,852,390	–
Other receivables	1,017,134	17,096,908	7,822,653
	1,223,134	24,949,298	7,822,653

Trade receivables

Sale of properties are normally completed upon the execution of legally binding, unconditional and irrevocable contracts and the sales prices are usually fully paid when the properties are assigned to the purchasers. The aged analysis of the trade receivables at each of the balance sheet dates during the Relevant Periods is as follows:

	As at 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Current (within three months)	–	7,852,390	–
Over three months	206,000	–	–
	206,000	7,852,390	–

The directors of Zhongshi consider that the fair value of the trade and other receivables at each of the balance sheet dates during the Relevant Periods approximate the carrying amounts.

17. AMOUNT DUE FROM A RELATED COMPANY

	As at 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
中國物資開發投資總公司	3,900,000	4,900,000	4,900,000
Maximum amount outstanding during the year	4,900,000	4,900,000	4,900,000

The amount is unsecured, interest-free and recoverable within one year.

中國物資開發投資總公司 is a subsidiary of China Chengtong Holdings Group Limited, a holding company of a substantial shareholder of the Company. The directors of Zhongshi consider that the fair value at each of the balance sheet dates during the Relevant Periods approximates to the carrying amount.

18. BANK BALANCES AND CASH

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

Bank balances carry interest at market interest rates which range from 0.72% to 1.62% (2005: 0.72%, 2004: 0.72%) per annum.

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

19. TRADE AND OTHER PAYABLES

	As at 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Trade payables	22,447,557	64,626,670	33,965,201
Other payables and accruals	325,576	438,805	1,615,215
	22,773,133	65,065,475	35,580,416

The aged analysis of the trade payables at each of the balance sheet dates during the Relevant Periods is as follows:

	As at 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Current (within one month)	–	–	–
One to three months	–	9,822,917	10,000,000
Over three months	22,447,557	54,803,753	23,965,201
	22,447,557	64,626,670	33,965,201

The directors of Zhongshi consider that the fair value of the trade and other payables at each of the balance sheet dates during the Relevant Periods approximate the carrying amounts.

20. AMOUNT DUE TO A FELLOW SUBSIDIARY

	As at 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Merry World Associates Limited	164,785	–	–

The amount is unsecured, interest-free and repayable on demand.

Merry World Associates Limited is a wholly owned subsidiary of the Company. The directors of Zhongshi consider that the fair value at 31 December 2006 approximates to the carrying amount.

21. BANK LOANS, SECURED

	As at 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Bank loans, secured	–	–	100,000,000

The bank loans carried interest at a fixed rate of 5.49% per annum.

The details of the securities to the bank loans are disclosed in note 15.

The directors of Zhongshi consider that the fair value at 31 December 2004 approximates to the carrying amount.

22. REGISTERED CAPITAL

	Paid-in registered capital
	RMB
At 1 January 2004, 31 December 2004, 31 December 2005 and 31 December 2006	80,000,000

23. OPERATING LEASE COMMITMENTS

At each of the balance sheet dates during the Relevant Periods, Zhongshi had commitments for future minimum lease payments under a non-cancellable operating lease which fall due as follows:

	As at 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Within one year	62,000	55,500	55,500

Operating lease payments represent rentals payable by Zhongshi for its office premises. The lease is negotiated for a term of about one year.

The lease payments are fixed and no arrangements have been entered into for contingent rental payments.

24. CAPITAL COMMITMENTS

	As at 31 December		
	2006	**2005**	**2004**
	RMB	*RMB*	*RMB*
Capital expenditure in respect of properties under development:			
Contracted for but not provided	–	–	103,940,198
Authorised but not contracted for	–	–	76,371,649
	–	–	180,311,847

25. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2006, Zhongshi received RMB18,000 interest income from a shareholder, 北京興合動力投資管理有限公司.

Balances with related parties at each of the balance sheet dates during the Relevant Periods are set out in notes 17 and 20.

26. RETIREMENT BENEFITS SCHEMES

The employees of Zhongshi are members of a state-managed retirement benefits scheme operated by PRC. Zhongshi is required to contribute certain percentage of its payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of Zhongshi with respect to the retirement benefits scheme is to make the required contributions.

III. SUBSEQUENT EVENTS

(a) On 15 January 2007, Zhongshi entered into a conditional agreement with a subsidiary of China Chengtong Holdings Group Limited, a holding company of a substantial shareholder of the Company, to acquire 52% equity interest in 西安富祥房地產開發有限公司 (unofficial English name, Xian Fuxiang Real Estate Development Limited) at a consideration of RMB25,600,000. The transaction was not yet completed at the date of this report.

(b) On 29 January 2007, Zhongshi entered into a conditional agreement with a subsidiary of China Chengtong Holdings Group Limited, a holding company of a substantial shareholder of the Company, to acquire the entire 100% equity interest in 洛陽城南中儲物流有限公司(unofficial English name, Luoyang Southern City CMST Logistics Limited) formerly known as 洛陽關林中儲物流中心(unofficial English name, Luoyang Ganlin Zhongchu Logistics Centre) at a consideration of RMB26,680,000. The transaction was not yet completed at the date of this report.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Zhongshi have been prepared in respect of any period subsequent to 31 December 2006.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

Pursuant to the Zhongshi Acquisition Agreement, the Group conditionally agreed to acquire 30% equity interest of Zhongshi at a consideration of RMB24 million (equivalent to HK$24 million) subject to an adjustment based on the Zhongshi Audited Accounts as described "Adjustment to the Zhongshi Consideration" in the Letter from the Board.

The following is the unaudited pro forma statement of assets and liabilities of the Enlarged Group. The unaudited pro forma statement of assets and liabilities was prepared assuming that the Zhongshi Acquisition had been taken place at 31 December 2006. The unaudited pro forma statement of assets and liabilities was prepared based on the audited consolidated financial statements of the Group for the year ended 31 December 2006, which has been extracted from the annual report of the Company for the year ended 31 December 2006 as set out in Appendix I to this circular, with adjustments to reflect the effect of the Zhongshi Acquisition.

The unaudited pro forma statement of assets and liabilities financial information was prepared by the Directors for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group or the Enlarged Group at 31 December 2006 or any future date as if the Zhongshi Acquisition was completed on 31 December 2006.

A. PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group *HK$'000* *(audited)*	Pro forma adjustment *HK$'000* *(Note)*	The Enlarged Group *HK$'000*
Non-current assets			
Property, plant and equipment	1,404		1,404
Investment properties	45,000		45,000
Interests in associates	264		264
Amount due from an associate	148,605		148,605
Interest in a jointly controlled entity	99,740		99,740
	295,013		295,013
Current assets			
Properties held for sale	50,415		50,415
Trade and other receivables	7,769		7,769
Amounts due from related companies	4,507		4,507
Restricted bank balance	4,200		4,200
Bank balances and cash	117,372	(24,000)	93,372
	184,263		160,263
Assets classified as held for sale	50,483		50,483
	234,746		210,746
Current liabilities			
Trade and other payables	59,470		59,470
Deposits received on sale of properties	1,055		1,055
Amount due to a minority shareholder of a subsidiary	3,978		3,978
Tax payable	17,347		17,347
Unsecured other loans	7,196		7,196
	89,046		89,046
Liabilities associated with assets classified as held for sale	35,721		35,721
	124,767		124,767
Net current assets	109,979		85,979
Total assets less current liabilities	404,992		380,992
Non-current liabilities			
Deferred taxation	3,937		3,937
Net assets	401,055		377,055

Note: The adjustment reflects the consideration paid for the acquisition of the 30% equity interest in Zhongshi.

The consideration is calculated as follows assuming that the Zhongshi Acquisition has been taken place on 31 December 2006:

	HK$'000
Consideration for the Zhongshi Acquisition before the Adjustment	24,000
The Adjustment*	–
Estimated consideration for the Zhongshi Acquisition	24,000

* Pursuant to the Zhongshi Acquisition Agreement, the actual consideration to be paid by the Group for the Zhongshi Acquisition amounting to RMB24,000,000 is subject to an adjustment if the after-tax profits as shown on the Zhongshi Audited Account (the "Zhongshi Profit") is not equal to RMB40,000,000 as described in the paragraph headed "Adjustment to the Zhongshi Consideration" in the Letter from the Board. This unaudited pro forma statement of assets and liabilities is prepared on the assumption that the amount of Adjustment is nil with reference to the estimate of Zhongshi Profit and no goodwill is resulted from the Zhongshi Acquisition with reference to the net assets value of Zhongshi as at 31 December 2006.

B. LETTER ON THE PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu. A copy of the following report is available for inspection.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

18 May 2007

TO THE DIRECTORS OF
CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

We report on the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of China Chengtong Development Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in section A of Appendix III to the circular of the Company dated 18 May 2007 in connection with the proposed acquisition (the "Zhongshi Acquisition") of the 30% equity interest in 中實投資有限責任公司 ("Zhongshi") (the "Circular").

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Zhongshi Acquisition might have affected the financial information presented, for inclusion in section A of Appendix III to the Circular.

The basis of preparation of the Unaudited Pro Forma Financial Information is set out on page 90 of the circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2006 or any future date.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of the letter and valuation certificates received from S.H. Ng & Co., Ltd., an independent property valuer, prepared for the purpose of incorporation in this circular in connection with their valuation of the property interests held by Zhongshi as at 28 February 2007.

S.H. NG & Co., Ltd.
Real Estate Consultant
21/F, Chun Wo Commercial Centre
25 – 27 Wing Wo Street,
Central, Hong Kong
Tel: 2882 7291 Fax: 2881 5905

The Directors
China Chentong Development Group Limited
Suite 6406, 64th Floor, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

18 May 2007

Dear Sir or Madam,

Re: Various unsold units in the City of Mergence, 9 & 11 Baiwanzhuang Dajie, Xicheng District, Beijing, The People's Republic of China (the "Properties")

In accordance with your instructions, we have valued the Properties in which China Chengtong Development Group Limited (the "Company") or its subsidiaries (together the "Group") have interests. We understand that our report will be used as a public document for disclosure purposes and our valuation shall comply with the relevant requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at 28 February 2007 (the "date of valuation").

BASIS OF VALUATION

Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The basis of valuation of the property interests is in accordance with the "HKIS Valuation Standards of Properties (1st Edition 2005) issued by The Hong Kong Institute of Surveyors and under generally accepted valuation procedures and practices, which comply with the Chapter 5 of the Listing Rules.

VALUATION METHODOLOGY

The Properties are all vacant and have been valued on an open market basis assuming sale with the benefit of vacant possession by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

VALUATION ASSUMPTIONS

The Properties are held for sale. Our valuations have been made on the assumption that the owner sells the property interests on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interests.

In valuing the property interests, we have assumed that the grantee or the user of the property has free and uninterrupted rights to use or to assign the property interests for the whole of the unexpired term of the lease.

TITLE INVESTIGATION

According to the information provided by your Group, the status of title, the grant of major approvals and licenses on the Properties are as follows:–

1.	Business License	Yes
2.	Realty Title Certificate	Yes
3.	Realty Rights Registration Certificate (Beijing City)	Yes
4.	State-owned Land Use Right Certificate	Yes
5	Land Use Right Certificate (Beijing City and District)	Yes
6.	Legal Opinion (prepared by Li Wen & Partners)	Yes

We have relied on the legal opinion regarding the legality and ownership details of the Properties issued by Li Wen & Partners on 12 April 2007, the legal adviser to the Group as to PRC laws.

LIMITING CONDITIONS

We have assumed that all consents, approvals and licenses from the relevant Government authorities for the legal use of the properties have been granted which might otherwise affect value. According to our standard practice, we must state that we have not taken into account of any tax liabilities, which might affect the net sale proceed of the property.

We have relied to a very considerable extent on the information given by you and have accepted advice given to us on such matters as statutory notices, easements, tenure, lettings, site and floor areas and all other relevant matters.

We have been supplied with the title documents relating to the properties. However, we have not searched the original documents to verify ownership or to verify any lease amendments, which may not appear on the copies handed to us. All documents and leases have been used for reference only and all dimensions measurements and areas are approximate only. No on site measurements have been taken.

We have been advised by the Group that the property interests of the Group in the City of Mergence are held for sale. In the event that the properties be disposed of, the tax liabilities arising from the disposal of the properties may include stamp duty (0.3% on the transaction amount), business tax (5% on the transaction amount), profit tax (25% on the profit gain), land tax (30% to 60% on the net appreciated amount less deductibles), city development tax (7% on amount of land tax payable for the city properties) and education additional fee (1% to 3% on the business tax amount). The Group has not made assessment on such potential tax liability. The above tax liabilities would not be crystallized before completion of the disposal of the Properties.

No allowance has been made in our report for any charges, mortgages or amount owing on the properties nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and out-goings of an onerous nature which could affect value.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also read the legal opinions regarding the ownership and related documents on the Properties.

We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated in this valuation certificate are in Hong Kong Dollars. The exchange rate used in valuing the property interests in the PRC on the date of valuation was RMB1.00 = HK$1.00. There has been some fluctuation in the exchange rate for the above currency between the date of valuation and the date of this letter. The official rate of exchange as around mid April 2007 was RMB1.00 = HK$1.0158, i.e. an increase of 1.58%.

We confirm that we have neither present nor future interests in the Group, the properties or the values reported herein.

Our valuation and the valuation certificate are attached.

Yours faithfully;
For and on behalf of
S.H. NG & Co., Ltd.
NG SAI HEE
FHKIS, MCIREA, RPS(GP)

Mr. Ng Sai Hee is a Fellow of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor and is an approved valuer under the Hong Kong Stock Exchange list of valuers. He has over 30 years valuation experience in properties in China, Hong Kong, Macau, South East Asia and is a practising valuation surveyor in Hong Kong.

VALUATION CERTIFICATE

Address of Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 28 February 2007
Various domestic units, commercial areas, car parking spaces and storerooms, City of Mergence, 9 & 11 Baiwanzhuang Dajie, Xicheng District, Beijing, The People's Republic of China	The unsold units comprise a total of 2 domestic unit, 8 commercial units, 2 storage units, 94 decked parking spaces together with 18 unregistered car parks in various floors. The development was built in 2006. The domestic unit has a gross area of 161.06 sq.m. The commercial units have a total gross area of 3,442.13 sq.m. and storage area of 701.44 sq.m. The property is granted with the land use rights for terms to expire on 20 June 2073 for domestic use, on 20 June 2053 for car parking use and on 20 June 2043 for ancillary facility uses.	All units and car parking spaces were vacant as at 28 February 2007.	HK$53,011,085.00 or RMB53,011,085.00 (70% value attributable to the Group: HK$37,107,759.50 or RMB37,107,759.50) See Notes: 1.4), 8) and 9).

Notes:

1) Subject of Valuation:

1.1) Domestic Units No. 2-1703 (161.06 sq.m.) and 2-1002 (105.20 sq.m.).

1.2) Commercial Unit 01A (487.34 sq.m.) on Level 1 of Block A. Commercial Units B1 (158.53 sq.m.), B2 (212.05 sq.m.) and B3 (84.15 sq.m.) on Level 1 of Block B. Commercial Unit 02 (1,316.35 sq.m.) on Level 2 of Block A & B. Commercial Unit 01 (1,183.71 sq.m.) in Basement 1 of Blocks A & B.

1.3) Storage Unit 03 (588.60 sq.m.) in Basement 2 of Blocks A & C. Storage Unit 02 (112.84 sq.m.) in Basement 3 of Block A.

1.4) Basement Car Park – a total of 94 decked car parking spaces in B2.

We were informed that there are also 18 single car parking spaces in Basement 3, which are carved out from the bunker area. The user rights of these car parking spaces can only be transferred by agreement but cannot be properly granted with Reality Title Certificates. However, it is understood that the Group will be able to benefit from the proceeds from sale of these car parks (same as those car parks of same status that had already been sold). We have therefore included the possible sales income of RMB2,262,300.00 in our valuation.

2) The property owner of the above units is Zhongshi Investment Company Limited ("Zhongshi"), a 70% subsidiary of the Company.

3) Pursuant to a Business License No. 021063 dated 16 August 2004:

Name of Company: Zhongshi Investment Company Limited.

Registered Capital: RMB80,000,000.

Business: construction, letting, selling of 9 & 11 Baiwanzhuang Dajie.

Business Operation Period: 16 August 2004 to 15 August 2034.

4) Pursuant to a State-owned Land Use Rights Certificate – Jing Guo Yong (2004) Di No. 20089 issued by the State Land Resource Bureau on 12 April 2004. The owner of 9 & 11 Baiwanzhuang Dajie is Zhongshi. The permitted land area is 7,206.33 sq.m. The permitted term of uses of the land are granted, for residential (up to 20 June 2073), ancillary facilities (up to 20 June 2043) and basement car parking (up to 20 June 2053).

5) Pursuant to a Realty Title Certificate dated 24 March 2006, the owner of 9 & 11 Baiwanzhuang Dajie is Zhongshi.

6) Pursuant to a Realty Right Registration Certificate (Beijing City) dated 29 January 2005 the registered owner of all those units in 01-02, ancillary areas in the basements and the domestic units at 9 & 11 Baiwanzhuang Dajie is Zhongshi.

7) Pursuant to a Land Use Rights Certificate dated 9 January 2004, the registered land use owner of 9 & 11 Baiwanzhuang Dajie is Zhongshi. The permitted uses are residential with ancillary services.

8) Sale and Purchase Agreement in respect of the domestic unit B1002 was entered into for a sum of RMB1,116,942 with deposit in the sum of RMB446,942 already paid. The registration of Realty Title Certificate has not been processed and it is understood that the purchaser was in the course of arrangement bank mortgage on the property as around end February 2007. For the purpose of this exercise, we have assumed that the outstanding balance is receivable and we have included this amount in our valuation as cash receivable as at 28 February 2007.

9) Sale and Purchase Agreement in respect of the domestic unit A1703 was entered into on 27 October 2005 for a sum of RMB1,988,085. However, the purchaser had not been able to pay up the same amount as at 28 February 2007. For the purpose of this valuation, we have assumed that Unit A1703 will be put on the market for sale. This amount, which represented the open market value of the unit as at 28 February 2007, had been included in our valuation as cash receivable from unit to be sold.

According to the legal opinions were formed by Li Wen & Partners:

1) Zhongshi is a legal joint-venture enterprise to carry out business from 16 August 2004 to 15 August 2034.

2) Zhongshi legally owns the following property interests (as at 28 February 2007).

Address of Property: Block 1 and Block 2, 9 & 11 Baiwanzhuang Dajie, Xicheng District, Beijing, China.

A. Residential:

Unit A1703 – 161.06 sq.m.
Unit B1002 – 105.20 sq.m.

B. Commercial:

Unit 01A – 487,34 sq.m. (also known as Unit 01A on Level 1 of Block A)
Unit 01B – 454.73 sq.m. (also known as Units B1, B2 and B3 on Level 1 of Block B)
Unit 02 – 1,316.35 sq.m. (also known as Unit 02 of Block A & B on Level 2)
Unit – 01 – 1,183.71 sq.m. (also known as Unit 01 in Basement 1 of Blocks A & B)

C. Basement Car Parks

Level – 02 – 3,349.59 sq.m.

D. Basement Storage Units

Unit – 02 – 588.60 sq.m.
Unit – 03 – 112.84 sq.m.

3) Land Use Rights: residential, ancillary uses and basement car parking.

4) Land Use Rights term of use: Residential – up to 20 June 2073
Ancillary – up to 20 June 2043
Basement Car Parking – up to 20 June 2053

5) Zhongshi Investment Company Limited has already been granted with the State-owned Land Use Rights Certificate and the Reality Title Certificate. The Company therefore legally owns and can freely dispose, sell, mortgage and lease all the above mentioned property interests.

6) Points to note are –

6.1 The purchaser of domestic Unit A1703 had not been able to pay up the purchase price. Zhongshi is in the course of seeking arbitration action from the China Trade Arbitration Board to determine the Sale and Purchase Agreement on Unit A1703. There was still no decision made by the China Trade Arbitration Board as at 28 February 2007.

A Sale and Purchase Agreement was entered into for Unit B1002 between Zhongshi and Lau Chi Keung (translation only). The transfer of the subject Land Use Rights had not yet been processed as at 28 February 2007.

6.2 Zhongshi had entered into a Sale and Purchase Agreement with a party for the sale of 48 car parking spaces in Basement-02 but had not yet applied for the transfer of ownership.

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' INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which 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 he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Interests in share options of the Company

Name of Director	Date of grant	Exercisable period	Exercise price *(HK$)*	Number of underlying Shares subject to share options	Approximate percentage of shareholding *(note)*
Directors					
Ma Zhengwu	8.3.2004	9.3.2005 to 8.3.2008	0.3012	725,195	0.03%
	8.3.2004	9.3.2006 to 8.3.2009	0.3012	725,195	0.03%
Zhang Guotong	8.3.2004	9.3.2005 to 8.3.2008	0.3012	725,195	0.03%
	28.9.2004	29.9.2005 to 28.9.2008	0.2027	3,625,976	0.14%
	8.3.2004	9.3.2006 to 8.3.2009	0.3012	725,195	0.03%

Name of Director	Date of grant	Exercisable period	Exercise price *(HK$)*	Number of underlying Shares subject to share options	Approximate percentage of shareholding *(note)*
Hong Shuikun	8.3.2004	9.3.2005 to 8.3.2008	0.3012	725,195	0.03%
	8.3.2004	9.3.2006 to 8.3.2009	0.3012	725,195	0.03%
Gu Laiyun	8.3.2004	9.3.2005 to 8.3.2008	0.3012	725,195	0.03%
	28.9.2004	29.9.2005 to 28.9.2008	0.2027	2,417,317	0.09%
	8.3.2004	9.3.2006 to 8.3.2009	0.3012	725,195	0.03%
Xu Zhen	8.3.2004	9.3.2005 to 8.3.2008	0.3012	362,598	0.01%
	8.3.2004	9.3.2006 to 8.3.2009	0.3012	362,598	0.01%

Note: The percentage of shareholding is calculated on the basis of 2,630,556,458 Shares in issue as at the Latest Practicable Date.

(b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which 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 the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up, been 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.

(d) As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up, and which was significant in relation to the business of the Group.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

(a) As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or 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 were 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 the Company:

Name of Shareholder	Nature of interest	Number of Shares	Approximate percentage of interest
World Gain	beneficial owner *(Note 2)*	791,814,913(L)	30.10%
CCHK	controlled corporation *(Note 2)*	791,814,913(L)	30.10%
CCHG	controlled corporation *(Note 2)*	791,814,913(L)	30.10%

Notes:

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

2. The entire issued share capital of World Gain is beneficially owned by CCHK, the entire issued share capital of which is beneficially owned by CCHG. Both of CCHK and CCHG are deemed to be interested in all the Shares held by World Gain Holdings Limited under the SFO.

3. The percentage of shareholding is calculated on the basis of 2,630,556,458 Shares in issue as at the Latest Practicable Date.

(b) As at the Latest Practicable Date, so far as is known to the Directors, the following entities were 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 other members of the Group:

Name of subsidiary	Name of shareholder	Number of shares	Approximate percentage of interest
Chengtong Hua Da Trading Limited	Hong Kong Hua Da Chemical Industry Company Limited	49 ordinary shares of HK$1 each	49%
China-eDN.com Limited	Diagonal Trading Limited	2,000,000 shares of HK$1 each	20%
Suzhou Nanda Cement. Co. Ltd	蘇州市望亭水泥廠 unofficial English name, Suzhou Wangting Cement Plant) formerly known as 蘇州市吳縣望亭水泥廠 (unofficial English name, Suzhou Wu Xian Wangting Cement Plant)	Registered capital of US$5,069,600	28.97%
Zhongshi	Zhongshi Vendor	Registered capital of RMB24,000,000	30%

(c) Save as disclosed in this circular, so far as is known to the Directors, there is no other person who had an interest or 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, had a direct or indirect interests amounting to 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 members of the Group.

4. DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

5. OTHER INTERESTS OF THE DIRECTORS AND THE EXPERTS

As at the Latest Practicable Date:

(i) none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2006, being the date of the latest published audited accounts of the Group, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group;

(ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group taken as a whole;

(iii) CIMB-GK, Deloitte Touche Tohmatsu, S.H. Ng & Co., Ltd. and Li Wen & Partners did not have any direct or indirect interest in any assets which have, since 31 December 2006, being the date of the latest published audited accounts of the Group, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and

(iv) CIMB-GK, Deloitte Touche Tohmatsu, S.H. Ng & Co., Ltd. and Li Wen & Partners were not materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group taken as a whole.

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business of the Company) have been entered into by members of the Group within two years immediately preceding the date of this circular which are or may be material:

(a) a conditional agreement as to terms dated 11 January 2006 entered into between Shine Ocean Limited, the Company's wholly owned subsidiary, as vendor and Strong Grace Limited as purchaser relating to the sale by the said vendor to the said purchaser of the entire issued share capital in Price Sales Limited and the shareholder's loan advanced by or on behalf of the said vendor to Price Sales Limited at a consideration of US$24,701,754 (equivalent to approximately HK$192,673,681);

(b) two settlement agreements (關於荔灣區德星路9號三樓A區和解協議書 and 關於荔灣區德星路9號三樓C區和解協議書) both dated 1 March 2006 entered into between Merry World Associates Limited ("**Merry World**"), the Company's wholly owned subsidiary, and Guangzhou Sui Nan Building Development Limited ("**Guangzhou Sui Nan**") for, among other matters, the transfer of Zone A of Level 3 of Li Wan Plaza, No. 9 Dexing Lu, Li Wan District, the PRC 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 Zone C of Level 3 of Li Wan Plaza, No. 9 Dexing Lu, Li Wan District, the PRC and confirmation of title of Merry World in Zone C of Level 3 of Li Wan Plaza, No. 9 Dexing Lu, Li Wan District, the PRC;

(c) an agreement for sale and purchase dated 15 June 2006 entered into between Time Add International Limited as vendor and Talent Dragon Limited, the Company's wholly owned subsidiary, as purchaser relating to the acquisition by the said purchaser of the entire issued share capital of Great Royal International Limited and the shareholder's loan advanced by or on behalf of the said vendor to Great Royal International Limited;

(d) the placing and subscription agreement dated 8 August 2006 entered into between World Gain, Oriental Patron Asia Limited as placing agent and the Company in relation to, among other matters, the subscription by World Gain for a total of 332,000,000 new Shares at HK$0.30 per Share, details of which were set out in the Company's announcement dated 8 August 2006;

(e) a subscription and shareholders agreement ("**Shareholders Agreement**") dated 12 October 2006 entered into between China Chengtong Cement Group Limited ("**CCCG**"), the Company's wholly owned subsidiary, CIMPOR Inversiones SA ("**CIMPOR**"), CIMPOR Chengtong Cement Corporation Limited and China Chengtong Development Group Limited in respect of the establishment and operation of CIMPOR Chengtong Cement Corporation Limited ("**JV Company**"), which is and to be owned as to 20% by CCCG and the remaining

80% by CIMPOR. Subject to fulfillment of the conditions to the Shareholders Agreement, CCCG and CIMPOR will subscribe for a total of 207,480,000 new shares in the JV Company, of which 20% will be subscribed for by CCCG and the remaining 80% will be subscribed for by CIMPOR;

(f) a conditional sale and purchase agreement ("**Sea-Land Group Sale Agreement**") dated 12 October 2006 entered into between CCCG and World Asia Properties Limited ("**World Asia**") , the Company's wholly owned subsidiary, as vendors and the JV Company as purchaser for the transfer of the entire issued share capital of Sea-Land Mining Limited, which in turn is holding a 71.03% interest in the registered capital of Suzhou Nanda Cement Company Limited, by CCCG and World Asia to the JV Company in satisfaction of the subscription price payable by CCCG for the 20% new shares in the JV Company to be subscribed by CCCG under the terms of the Shareholders Agreement;

(g) an extension agreement dated 20 December 2006 entered into by the same parties to the Shareholders Agreement extending the date for fulfillment of the conditions to completion of subscription of shares in the JV Company from 31 December 2006 to 30 June 2007;

(h) an extension agreement dated 20 December 2006 entered into by the same parties to the Sea-Land Group Sale Agreement extending the date for fulfillment of the conditions to completion of the Sea-Land Group Sale Agreement from 31 December 2006 to 30 June 2007;

(i) the underwriting agreement dated 27 December 2006 entered into between the Company, World Gain and Oriental Patron Asia Limited in relation to the a rights issue of not less than 607,051,490 Shares and not more than 616,021,490 Shares at the subscription price of HK$0.33 per Share (as supplemented by two letters dated 9 January 2007 and 26 February 2007 entered into by the same parties amending certain terms and the expected timetable of the rights issue);

(j) a letter of intent (股權轉讓意向書) dated 27 December 2006 entered into between CCPGL, the Company's wholly owned subsidiary, and the Zhongshi Vendor for the proposed acquisition by the CCPGL of the Zhongshi Vendor's interest in 30% of the registered capital in Zhongshi, which is a 70% indirectly owned subsidiary of the Company, at a consideration of RMB24,000,000 as supplemented by a supplemental agreement (股權轉讓補充意向書) dated 17 January 2007 extending the date of signing of the formal agreement in respect of the said proposed acquisition to 31 March 2007;

(k) a letter agreement dated 9 January 2007 ("**Service Agreement**") signed by Oriental Patron and the Company for the provision by Oriental Patron Asia Limited to the Company of services in relation to proposed fund raising of an estimated aggregate amount of not less than HK$500 million (not including, funds (if any) provided by the controlling shareholder (as defined in the Listing Rules) of the Company and/or the subsidiaries of such controlling shareholder) in return for which, the Company is to allot and issue not more than 161,880,397 Shares (represents 8% of the total issued Shares as at 31 December 2006) on and subject to the terms and conditions contained in the Service Agreement;

(l) an equity transfer agreement dated 15 January 2007 entered into between 嘉成企業發展有限公司 (unofficial English name, Jiacheng Enterprise Development Company Limited) ("**Xian Vendor**") and Zhongshi relating the proposed acquisition of 52% of the registered capital of the Xian PRC Company ("**Xian Acquisition**") at a consideration of RMB25,600,000;

(m) a letter of undertaking dated 11 January 2007 entered into by the Xian Vendor, Zhongshi and 陝西銀信西部投資開發有限公司 (unofficial English name, Shaanxi Yinxin Western Investment Development Limited), relating to the Xian Acquisition;

(n) a supplemental agreement dated 15 March 2007 entered into among the Xian Vendor, Zhongshi and 北京草埔園林綠化工程有限公司 (unofficial English name, Beijing CaoPu Garden Landscaping Engineering Limited) relating to the Xian Acquisition;

(o) an equity transfer agreement dated 29 January 2007 entered into between 中國新元資產管理公司 (unofficial English name, China Xinyuan Asset Management Company) ("**Luoyang Vendor**") and Zhongshi relating to the acquisition of the 100% registered capital of the Luoyang PRC Company ("**Luoyang Acquisition**") at a consideration of RMB26,680,000;

(p) a supplemental agreement dated 29 January 2007 entered into by the Luoyang Vendor and Zhongshi relating to the Luoyang Acquisition;

(q) a second supplemental agreement dated 15 March 2007 entered into between the Luoyang Vendor and Zhongshi relating to the Luoyang Acquisition; and

(r) the Zhongshi Acquisition Agreement.

8. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who has given opinion or, advice contained in this circular:

Name	**Qualification**
CIMB-GK	a corporation licensed to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO

Name	Qualification
Deloitte Touche Tohmatsu	Certified Public Accountants
S.H. Ng & Co., Ltd.	Registered Professional Surveyors
Li Wen & Partners	Legal advisers on PRC laws

As at the Latest Practicable Date, none of CIMB-GK, Deloitte Touche Tohmatsu, S.H. Ng & Co., Ltd. and Li Wen & Partners was beneficially interested in the share capital of any member of the Group nor had it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which had been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

9. CONSENTS

CIMB-GK, Deloitte Touche Tohmatsu, S.H. Ng & Co., Ltd. and Li Wen & Partners have given and have not withdrawn their written consents as to the issue of this circular with the inclusion herein of their respective opinions or letters and/or reference to their names, opinions or letters in the form and context in which they respectively appear.

10. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors nor his 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.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company in Hong Kong at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours from 18 May 2007 up to and including 31 May 2007 and at the EGM:

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

(2) the annual reports of the Group for the two financial years ended 31 December 2006;

(3) the accountants' report of Zhongshi prepared by Deloitte Touche Tohmatsu for the three financial years ended 31 December 2006 as set out in Appendix II to this circular;

(4) the report issued by Deloitte Touche Tohmatsu in connection with the pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix III to this circular;

(5) the property valuation report issued by S.H. Ng & Co., Ltd. as set out in Appendix IV to this circular;

(6) the letter from CIMB-GK, the text of which is set out on pages 15 to 19 of this circular;

(7) the copies of material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(8) the written consents of CIMB-GK, Deloitte Touche Tohmatsu, S.H. Ng & Co., Ltd. and Li Wen & Partners referred to in the paragraph headed "Consents" in this appendix; and

(9) the circular of the Company dated 4 May 2007 and this circular.

12. MISCELLANEOUS

(1) The registered and head office of the Company is located at Suite 6406, 64th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(2) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(3) The company secretary of the Company is Mr. Lai Ka Fai, Albert, a solicitor in Hong Kong.

(4) The qualified accountant of the Company is Ms. Chan Yuet Kwai, *FCPA FCCA*.

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 ("**Meeting**") of China Chengtong Development Group Limited ("**Company**") will be held on Friday, 8 June 2007 at Falcon Room II, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong at 11:30 a.m., for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as an Ordinary Resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the form and substance of the equity transfer agreement dated 27 March 2007 entered into between 北京興合動力投資管理有限公司 (unofficial English name, Beijing Xinghe Dongli Investment Management Co., Ltd.) ("**Zhongshi Vendor**") and China Chengtong Properties Group Limited (中國誠通地產集團有限公司) (as purchaser) ("**Zhongshi Acquisition Agreement**") for the acquisition of 30% of the registered capital of 中實投資有限責任公司 (unofficial English name, Zhongshi Investment Company Limited) (a copy of the Zhongshi Acquisition Agreement marked "A" and initialed by the chairman of the Meeting for identification purpose has been tabled at the meeting) be and are hereby approved; and the directors of the Company ("**Directors**") or a duly authorised committee of the board of Directors be and are hereby authorised to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivery of all agreements, documents and instruments,) which are in their opinion necessary, appropriate, desirable or expedient to implement or to give effect to the terms of the Zhongshi Acquisition 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 Zhongshi Acquisition 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 Guotang
Managing Director

Hong Kong, 18 May 2007

Registered office:
Suite 6406, 64th Floor
Central Plaza
18 Harbour Road
Wanchai
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. A proxy need not be a member of the Company. In case of joint holders of any Shares, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such Shares as if he/she were solely entitled thereto; but if more than one joint holder be present at the Meeting personally or by proxy, that one of the joint holders so present whose name stands first on the register of members in respect of such Shares 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 Rooms 1806–1807, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less 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. The above resolution will be voted on a poll. The Zhongshi Vendor and its associates are required to be abstained from voting on such resolution.

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