



# CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

Interim Report

2004



## **BOARD OF DIRECTORS**

### *Executive Directors*

Zhang Guotong (*Vice Chairman and  
Managing Director*)

Li Tiefeng

Wu Chun Wah, Michael

### *Non-Executive Directors*

Ma Zhengwu (*Chairman*)

Hong Shuikun

Chen Shengjie

Gu Laiyun

### *Independent Non-Executive Directors*

Tsui Yiu Wa, Alec

Kwong Che Keung, Gordon

Lao Youan

## **COMPANY SECRETARY**

Lai Ka Fai

## **AUDITORS**

Deloitte Touche Tohmatsu

*Certified Public Accountants*

Hong Kong

## **PRINCIPAL BANKER**

The Hongkong and Shanghai Banking  
Corporation Limited

## **REGISTERED OFFICE**

Suites 2904-2907

29/F, One International Finance Centre

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Hong Kong

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## **SHARE REGISTRARS & TRANSFER OFFICE**

Computershare Hong Kong Investor  
Services Limited

Shops 1712-1716

17/F., Hopewell Centre

183 Queen's Road East, Wanchai,  
Hong Kong

Tel: (852) 2862-8628

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## **SHARE LISTING**

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

The board (“Board”) of directors (“Directors” and each, a “Director”) of China Chengtong Development Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2004, together with the comparative figures for the corresponding period in the previous year, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2004

	Notes	Six months ended 30 September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	3	152,254	58,238
Cost of sales		(151,701)	(47,291)
Gross profit		553	10,947
Other income		205	1,717
Distribution costs		(549)	(1,143)
Administrative expenses		(11,409)	(9,975)
Other operating expenses		–	(1,008)
Revaluation deficit recognised in respect of an investment property		–	(19,000)
Loss from operations	4	(11,200)	(18,462)
Gain on disposal of subsidiaries	16	162,989	–
Share of result of associates		(261)	1,164
Finance costs	5	(32)	(2,349)
Profit (loss) before taxation		151,496	(19,647)
Taxation	6	(2,021)	(899)
Profit (loss) before minority interests		149,475	(20,546)
Minority interests		1,531	(1,922)
Net profit (loss) for the period		151,006	(22,468)
Earnings (loss) per share	7		
Basic		HK9.0 cents	HK(1.33) cents
Diluted		HK9.0 cents	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 September 2004

	Notes	<b>30 September 2004 HK\$'000 (Unaudited)</b>	31 March 2004 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	82,120	76,321
Investment properties	9	91,132	194,796
Properties under development	10	135,129	–
Interests in associates		180,089	197,745
		<b>488,470</b>	468,862
<b>Current assets</b>			
Inventories		7,435	11,811
Trade and other receivables	11	18,539	13,077
Bills receivables		2,114	9,831
Amount due from a minority interest		1,618	1,337
Amounts due from related companies	12	9,000	–
Bank balances and cash		93,720	28,755
		<b>132,426</b>	64,811
<b>Current liabilities</b>			
Trade and other payables	13	86,188	95,704
Loan from an intermediate controlling shareholder		15,000	15,000
Amount due to a minority interest		–	3,799
Taxation payable		570	4,706
Other loans			
– amount due within one year		7,196	7,827
Bank loans, secured		17,776	20,840
		<b>126,730</b>	147,876
Net current assets (liabilities)		<b>5,696</b>	(83,065)
Total assets less current liabilities		<b>494,166</b>	385,797
<b>Non-current liabilities</b>			
Loans from minority interests		3,978	100,807
Bank loans			
– amount due after one year		66,010	–
Loan payable	14	28,290	–
Other loans			
– amount due after one year		–	63,236
Deferred tax liabilities		12,261	10,240
		<b>110,539</b>	174,283
Minority interests		43,401	22,294
Net assets		<b>340,226</b>	189,220
<b>Capital and reserves</b>			
Share capital	15	168,710	168,710
Reserves		171,516	20,510
Shareholders' funds		<b>340,226</b>	189,220

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 September 2004*

	Share capital	Share premium	Capital redemption reserve	Exchange reserve	Legal surplus	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2003	168,440	939,140	402	284	–	(963,841)	144,425
Issue of new shares upon exercise of share options	125	62	–	–	–	–	187
Net loss for the period	–	–	–	–	–	(22,468)	(22,468)
At 30 September 2003	<u>168,565</u>	<u>939,202</u>	<u>402</u>	<u>284</u>	<u>–</u>	<u>(986,309)</u>	<u>122,144</u>
At 1 April 2004	168,710	939,273	402	284	565	(920,014)	189,220
Net profit for the period	–	–	–	–	–	151,006	151,006
At 30 September 2004	<u>168,710</u>	<u>939,273</u>	<u>402</u>	<u>284</u>	<u>565</u>	<u>(769,008)</u>	<u>340,226</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 September 2004*

		<b>Six months ended 30 September</b>	
	<i>Note</i>	<b>2004 HK\$'000 (Unaudited)</b>	2003 HK\$'000 (Unaudited)
Net cash generated from operating activities		<b>5,302</b>	1,480
Net cash generated from (used in) investing activities			
Purchase and disposal of subsidiaries	16	<b>71,830</b>	–
Other investing activities		<b>(11,588)</b>	(20,969)
		<b>60,242</b>	(20,969)
Net cash used in financing activities		<b>(579)</b>	(881)
Net increase (decrease) in cash and cash equivalents		<b>64,965</b>	(20,370)
Cash and cash equivalents at beginning of the period		<b>28,755</b>	29,946
Cash and cash equivalents at end of the period		<b>93,720</b>	9,576

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 September 2004*

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for revaluation of investment properties.

The accounting policies adopted are consistent with those followed in the preparation of the audited financial statements of the Group for the year ended 31 March 2004, except that the Company has adopted, for the first time in the current period, the following accounting policies.

#### **Properties under development**

Properties under development are stated at cost. 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. Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets while properties under development which are due for completion within one year from the balance sheet date are shown as current assets.

#### **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.





**3. TURNOVER AND SEGMENT INFORMATION** *(Continued)***Business segments** *(Continued)*

	Trade and manufacture of cement <i>HK\$'000</i>	Trade of goods <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Investments holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the six months ended 30 September 2003					
Turnover					
Segment turnover	50,720	5,546	1,972	-	58,238
Result					
Segment result	7,942	87	829	68	8,926
Revaluation deficit recognised in respect of an investment property	-	-	(19,000)	-	(19,000)
Unallocated corporate expenses					(8,388)
Loss from operations					(18,462)
Share of results of associates	-	-	-	1,164	1,164
Finance costs					(2,349)
Loss before taxation					(19,647)
Taxation					(899)
Loss before minority interests					(20,546)
Minority interests					(1,922)
Net loss for the period					(22,468)

**3. TURNOVER AND SEGMENT INFORMATION** *(Continued)***Geographical segments**

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

	<b>Turnover by geographical market Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>93,471</b>	7,518
Mainland China	<b>58,783</b>	50,720
	<b>152,254</b>	58,238

**4. LOSS FROM OPERATIONS**

	<b>Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Loss from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>3,709</b>	2,777
Loss on disposal of property, plant and equipment	<b>38</b>	-
and after crediting:		
Gain on disposal of property, plant and equipment	-	510
Release of negative goodwill arising on purchase of an associate	-	337

**5. FINANCE COSTS**

	<b>Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest on		
Bank borrowings wholly repayable within five years	<b>(515)</b>	(1,584)
Other loans wholly repayable within five years	<b>-</b>	(765)
	<hr/>	<hr/>
Total borrowing costs	<b>(515)</b>	(2,349)
Less: Amount capitalised in the cost of property under development	<b>483</b>	-
	<hr/>	<hr/>
	<b>(32)</b>	(2,349)
	<hr/>	<hr/>

**6. TAXATION**

	<b>Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
The Company and subsidiaries:		
Hong Kong Profits Tax	<b>-</b>	(387)
PRC Enterprise Income Tax	<b>-</b>	(512)
	<hr/>	<hr/>
	<b>-</b>	(899)
Deferred taxation	<b>(2,021)</b>	-
	<hr/>	<hr/>
Taxation charge for the period	<b>(2,021)</b>	(899)
	<hr/>	<hr/>

No provision for Hong Kong Profits Tax has been made in both periods as the Group's estimated assessable profit for the periods was wholly absorbed by the taxation losses brought forward. The charge for the previous period represented the underprovision of Hong Kong Profits Tax in prior periods.

The subsidiaries established in the Mainland China are exempted from paying PRC Enterprise Income Tax for the first two profit-making years followed by a 50% reduction in the enterprise income tax rates in the following three years. PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the Mainland China on the estimated assessable profits of those subsidiaries and associates.

**7. EARNINGS (LOSS) PER SHARE**

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

	<b>Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Net profit (loss) for the period for the purposes of basic and diluted earnings (loss) per share	<b>151,006</b>	(22,468)
Weighted average number of ordinary shares for purpose of basic earnings (loss) per share	<b>1,687,104,970</b>	1,684,995,132
Effect of dilutive potential ordinary shares in respect of share options	<b>41,227</b>	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,687,146,197</b>	N/A

No diluted loss per share has been presented for prior period as the exercise of the Company's outstanding share options would reduce net loss per share.

**8. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent HK\$12,736,000 (six months ended 30 September 2003: HK\$4,593,000) on acquisitions of property, plant and equipment.

**9. INVESTMENT PROPERTIES**

Details of movement of investment properties are set out below:

	<i>HK\$'000</i>
Carrying amount at 1 April 2004	194,796
Disposal of subsidiaries	(103,664)
Carrying amount at 30 September 2004	<u>91,132</u>

The investment properties were revalued on the basis of their open market values as at 31 March 2004 by S.H. Ng & Co., Ltd., an independent property valuer. At 30 September 2004, the directors have considered the carrying amounts of the Group's investment properties and have estimated that the carrying amounts do not differ significantly from that which would be determined using open market value at the balance sheet date. Accordingly, no revaluation surplus or deficit has been recognised in the current period.

**10. PROPERTIES UNDER DEVELOPMENT**

Details of movement of properties under development are set out below:

	<i>HK\$'000</i>
Purchase of subsidiaries	112,618
Additions	22,511
	<hr/>
Balance at 30 September 2004	135,129
	<hr/>

**11. TRADE AND OTHER RECEIVABLES**

	<b>30 September 2004 <i>HK\$'000</i></b>	31 March 2004 <i>HK\$'000</i>
Trade receivables	<b>8,606</b>	8,280
Prepayments and deposits	<b>3,010</b>	3,102
Other receivables	<b>6,923</b>	1,695
	<hr/>	<hr/>
	<b>18,539</b>	13,077
	<hr/>	<hr/>

The Group allows an average credit period of 30 days (31 March 2004: 30 days) to its trade customers on open account credit terms. The aged analysis of the trade receivables at 30 September 2004 is as follows:

	<b>30 September 2004 <i>HK\$'000</i></b>	31 March 2004 <i>HK\$'000</i>
Current	<b>1,563</b>	2,187
One to three months	<b>2,891</b>	328
Over three months	<b>4,152</b>	5,765
	<hr/>	<hr/>
	<b>8,606</b>	8,280
	<hr/>	<hr/>

**12. AMOUNTS DUE FROM RELATED COMPANIES**

<b>Name of related companies</b>	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
中國物資開發投資總公司（“中國物資”）	<b>4,621</b>	–
北京京華都房地產開發有限公司	<b>4,379</b>	–
	<b>9,000</b>	–

The amounts are unsecured, interest-free and repayable on demand. Both companies are the subsidiaries of China Chengtong Holdings Company, the ultimate controlling shareholder of the Company.

**13. TRADE AND OTHER PAYABLES**

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Trade payables	<b>35,498</b>	25,465
Deposits received, other payables and accruals	<b>50,690</b>	70,239
	<b>86,188</b>	95,704

The aged analysis of the trade payables at 30 September 2004 is as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Current	<b>24,095</b>	4,044
One to three months	<b>3,635</b>	1,422
Over three months	<b>7,768</b>	19,999
	<b>35,498</b>	25,465

**14. LOAN PAYABLE**

The loan payable represents the loan borrowed from a bank in the PRC by 中實投資有限責任公司, a subsidiary of the Company, with the back-to-back funding provided by 中國物資 to that bank. The loan payable is unsecured, bears interest at 8% per annum and is due in April 2006.

**15. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Amount</b>
	<i>'000</i>	<i>HK\$'000</i>
<b>Ordinary shares of HK\$0.10 each</b>		
<i>Authorised:</i>		
At 1 April 2004 and 30 September 2004	5,000,000	500,000
<i>Issued and fully paid:</i>		
At 1 April 2004 and 30 September 2004	1,687,105	168,710

**16. PURCHASE AND DISPOSAL OF SUBSIDIARIES**

On 1 April 2004, the Company announced that it had entered into a share sale agreement (the "Share Sale Agreement") with China Chengtong Hong Kong Company Limited ("CCHK"), a substantial shareholder of the Company, pursuant to which the Company agreed to dispose of the Company's entire equity interests in Ocean-Land Management Limited and Tat Yeung Investments Limited (collectively as the "Disposal Companies"), for a consideration of HK\$72,836,000.

Upon completion of the Share Sale Agreement, the Company ceased to have any interest in the Disposal Companies and both of them ceased to be subsidiaries of the Company.

Subject to the conditions stated below, part of the consideration for the disposal, HK\$52,830,000, was satisfied by a transfer of the entire equity of Talent Dragon Limited ("Beijing Holdco"), a wholly-owned subsidiary of CCHK incorporated in the British Virgin Island to the Company, and the balance of the consideration, HK\$20,006,000, was paid in cash. The purchase of Beijing Holdco was subject to:

- (1) the Company being satisfied with its due diligence review of Beijing Holdco including its interests in 中實投資有限責任公司, a limited liability company established under the laws of the PRC with a registered capital of RMB80 million (the "Beijing JV") and Beijing JV's interest in a site for development comprising villas nos. 9 and 11 at Baiwanzhuang Dajie, Xicheng District, Beijing, the PRC with a site area of about 7,200 sq.m. (the "Beijing Project"); and

**16. PURCHASE AND DISPOSAL OF SUBSIDIARIES** *(Continued)*

- (2) Beijing Holdco acquiring a 70% interest in the Beijing JV, the issue of a valuation report by an independent valuer confirming that the open market value of the Beijing Project is not less than RMB100 million (equivalent to about HK\$94.34 million), the net tangible asset value of the Beijing JV not being less than RMB80 million (equivalent to about HK\$75.47 million), and loan financing of not less than RMB131.4 million (equivalent to about HK\$123.96 million) being made available to the Beijing JV for the development of the Beijing Project.

If the Company was not satisfied with its due diligence review of the Beijing Holdco, or if Beijing Holdco failed to acquire a 70% interest in the Beijing JV as mentioned above, or if Beijing JV failed to secure loan financing of RMB131.4 million (equivalent to about HK\$123.96 million) for the development of the Beijing Project as mentioned above (collectively as the "Conditions"), the full amount of the disposal consideration would be paid in cash to the Company on completion of the Share Sale Agreement.

As the counterparty to the Share Sale Agreement is CCHK, an intermediate controlling shareholder of the Company, the Share Sale Agreement therefore constituted a connected transaction of the Company under the Listing Rules. The Share Sale Agreement was approved by the independent shareholders at an Extraordinary General Meeting held on 26 July 2004. The Company was satisfied with the Conditions and Beijing Holdco became a wholly-owned subsidiary of the Company during the six months ended 30 September 2004. The details of such transactions are set out in the Company's circular to the shareholders dated 9 July 2004.



**16. PURCHASE AND DISPOSAL OF SUBSIDIARIES** (Continued)

Net cash from purchase and disposal of subsidiaries:

	<b>Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net liabilities of Disposal Companies disposed of	<b>(90,153)</b>	–
Gain on disposal of Disposal Companies	<b>162,989</b>	–
	<hr/>	<hr/>
Consideration	<b>72,836</b>	–
	<hr/>	<hr/>
Satisfied by:		
Cash	<b>20,006</b>	–
Transfer of entire equity of Beijing Holdco	<b>52,830</b>	–
	<hr/>	<hr/>
	<b>72,836</b>	–
	<hr/>	<hr/>
Analysis of the net inflow of cash and cash equivalents arising on the purchase and disposal of subsidiaries:		
Cash received	<b>20,006</b>	–
Cash and bank balances acquired from Beijing Holdco	<b>51,829</b>	–
Cash and bank balances of Disposal Companies disposed of	<b>(5)</b>	–
	<hr/>	<hr/>
	<b>71,830</b>	–
	<hr/>	<hr/>

**17. CONTINGENT LIABILITIES**

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Litigation	<b>1,068</b>	5,523

The litigation represents the maximum contingent liability of the Group estimated by the directors in respect of a claim lodged against a subsidiary of the Company. The directors, based on the advice of the Group's legal advisors, considered that the Group has a good defence against the alleged claim and accordingly, did not make any provision for liabilities in respect of the claim for the period.

On 11 November 2004, the Company made a press announcement in relation to a petition filed against a wholly-owned subsidiary of the Company, seeking an order, among other matters, for the transfer of certain landed property in the PRC owned by such wholly-owned subsidiary, in favour of the plaintiff and payment of the amount and related court expenses claimed. The petition is scheduled to be heard by the Intermediate People's Court of Guangzhou City on 15 March 2005. The Company is now seeking legal advice on the above matters and the PRC legal advisers have been instructed to advise on the Company and represent the wholly-owned subsidiary of the Company in the petition. The directors considered that the Group has a good defense against the petition and accordingly, did not make any provision for liabilities in respect of the claims for the period.

**18. OPERATING LEASE COMMITMENTS****As lessee**

The Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Within one year	<b>2,103</b>	2,120
In the second to fifth year inclusive	<b>2,587</b>	3,631
	<b>4,690</b>	5,751

**18. OPERATING LEASE COMMITMENTS** *(Continued)***As lessor**

The Group had contracted with tenants for the following future minimum lease payments in respect of the investment properties:

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Within one year	<b>913</b>	913
In the second to fifth year inclusive	<b>1,141</b>	1,597
	<b>2,054</b>	2,510

**19. CAPITAL COMMITMENTS**

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Capital commitments in respect of properties under development:		
Contracted but not provided for	<b>144,799</b>	–
Authorised but not contracted for	<b>72,634</b>	–
	<b>217,433</b>	–
Capital commitments in respect of acquisition of property, plant and equipment:		
Contracted but not provided for	<b>6,601</b>	2,256

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend (period ended 30 September 2003: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

For the six months ended 30 September 2004 (the “period”), the interim consolidated net profit of the Group attributable to shareholders was approximately HK\$151 million compared with the loss of about HK\$22 million for the corresponding period in 2003. Earnings per share was about HK\$9.0 cents for the period. (2003: loss per share HK\$1.3 cents)

Net profit for the period was mainly attributable to a gain on disposal of subsidiaries where the Company entered into a share sale agreement (the “Share Sale Agreement”) with China Chengtong Hong Kong Company Limited (“CCHK”), a substantial shareholder of the Company on 25 March 2004, disposing all interests of its wholly-owned subsidiaries Ocean-Land Management Limited and Tat Yeung Investments Limited (the “Disposal Companies”) for a consideration of HK\$72.8 million. Part of the consideration for the disposal was satisfied by a transfer of the entire equity of Talent Dragon Limited (“Beijing Holdco”) and the balance of the consideration, HK\$20 million, was paid in cash. (Details of the transaction was described in “Property Investments” section) The transaction was subsequently completed on 31 August 2004 and generated a gain of approximately HK\$163 million.

The Group recorded a turnover of approximately HK\$152 million for the period as compared to about HK\$58 million for the same period in 2003, representing an increase of 162%. The increase was primarily due to commencement of trading business during the period under review.

The Group continued to implement strict financial and cost control during the period and total administrative and other operating expenses remained flat compared to the same period last year.

## BUSINESS REVIEW

### Property Investments

The Group continued to rationalize the investment property portfolio aiming at improving asset quality and return on investment. During the period under review, the Company disposed an investment property with limited potential to CCHK for a consideration of HK\$72.8 million with details as follow:

On 25 March 2004 the company has entered into a Share Sale Agreement with CCHK disposing all interests of its wholly-owned subsidiaries Ocean-Land Management Limited and Tat Yeung Investments Limited for a consideration of HK\$72.8 million to CCHK. The Disposal Companies hold an effective 45% equity interest and respective loans in a sino-foreign co-operative joint venture enterprise engaged in investment and development of a commercial and residential project (the "Panyu Project") in Panyu, Guangdong, the PRC with a gross floor area of about 72,000 sq.m. Part of the consideration for the disposal, HK\$52.8 million, was satisfied by a transfer of the entire equity of Beijing Holdco, a wholly-owned subsidiary of CCHK which holds an effective 70% equity interest of Zhongshi Investment Company Limited ("Zhongshi") which owns a site for residential development comprising villas nos. 9 and 11 at Baiwanzhuang Dajie, Xicheng District, Beijing (the "Beijing Project"), the PRC with a site area of about 7,200 sq.m. The Share Sale Agreement was approved by the independent shareholders at the Extraordinary General Meeting held on 26 July 2004. Upon completion on 31 August 2004, the Company ceased to have any interest in the Disposal Companies and the Beijing Holdco became our subsidiary which in turn owns 70% of the Beijing project.

This transaction also laid down the milestones for the Group's participation of the ultimate controlling shareholder China Chengtong Holdings Company's ("CCHC") logistics property development. This transaction resulted in a gain of approximately HK\$163 million as well as improvement of the Group's financial position. The Beijing Project acquired is a residential development project expected to be completed by the end of 2005. Sales permit of the Beijing Project has been recently awarded and pre-sale program will be launched shortly. The Group believed that the Beijing Project will deliver a favorable contribution to the Group in 2005.

## **BUSINESS REVIEW** *(Continued)*

### **Property Investments** *(Continued)*

In September 2003, the Group initiated a legal proceeding against a mobile phone retail shop and the property developer to evict the former for unauthorized occupation from the property located at Zone C of Level 3 of Liwan Plaza, No. 9, Dexing Lu, Li Wan District, Guangzhou, the PRC (the "Guangzhou Property") which is 100% owned by the Group. On 11 November 2004, the property developer who sold the Guangzhou Property to the wholly-owned subsidiary of the Group, Merry World Associates Limited ("Merry World"), made a counter claim and filed a petition against the Merry World for the cancellation of the Property Pre-sale Contract Deed, transfer back of the title of the Guangzhou Property and compensation of the relevant costs incurred. The Company is now seeking legal advice on the matter and has confidence to have good defense against the petition.

### **Strategic Investments**

During the period under review, the fixed investment rate in the PRC has been slowing down under the macro-economic austerity measures implemented by the PRC Government. The Company's subsidiary, Suzhou Nanda Cement Company Limited ("Suzhou Nanda") suffered from substantial drop in both demand and selling price of cement. Coupled with the adverse impact of power supply shortage and increase in raw material and labor costs, Suzhou Nanda recorded a turnover of approximately HK\$58.7 million and a net loss of HK\$2.3 million based on the unaudited accounts of Suzhou Nanda for the six months ended 30 September 2004. To overcome such unfavourable operating environment, Suzhou Nanda has implemented a technical enhancement program and a newly modified and upgraded cement grinding production line was installed in late 2004. Annual production capacity will increase to 500,000 tonnes with a product mix comprising mostly high-graded cement. Given the recent stabilisation of selling price of cement, Suzhou Nanda is expected to restore into profitability in 2005.

### **Trading Business**

Trading business of the Group recorded an outstanding performance with the continuous support from the Group's ultimate controlling shareholder, CCHC who has strong operation expertise. For the six months period ended 30 September 2004, trading volume increased to HK\$93.5 million with a positive operating profit contribution. The Group mainly focuses on trading of metal commodities and chemical products.

## PROSPECTS

The acquisition of the Beijing Project is not only a milestone to the Group's new business development but also the commencement of business integration with CCHC, the ultimate controlling shareholder. Taking advantage of the parent company's massive land bank, the Group will aggressively expand its logistics property development business. The Group will consider acquiring suitable property development projects by leveraging the expertise gained in the development of the Beijing Project. The Group is also identifying potential businesses which can generate reasonable return, particularly in the area of modern logistics.

By strengthening the core businesses of property investments, strategic investments and logistic and trading business, together with a sound financial position, the Group is confident to achieve better performance and maximize shareholders' value.

## PLEDGE OF ASSETS

As at 30 September 2004, the Group's plant and machinery with aggregate carrying value of approximately HK\$19 million and property under development with net book value of HK\$135 million have been pledged as securities for the Group's borrowing and banking facilities.

## CONTINGENT LIABILITY

As at 30 September 2004, the Group's estimated maximum contingent liability in respect of a legal claim was HK\$1 million.

## GEARING RATIOS

As at 30 September 2004, the Group's gearing ratio calculated on the basis of total bank loans, loans from minority interests and other loans of approximately HK\$138 million and total assets of approximately HK\$621 million was 0.22.

## LIQUIDITY AND CAPITAL RESOURCES

At 30 September 2004, the Group had current assets and current liabilities of HK\$132 million and HK\$127 million respectively (31 March 2004: HK\$65 million and HK\$148 million respectively). The Group had cash and bank balances amounting to HK\$94 million as at 30 September 2004 (31 March 2004: HK\$29 million).

At 30 September 2004, the Group had in aggregate HK\$84 million (31 March 2004: HK\$21 million) bank borrowings secured on certain properties owned by the Group. The Group had unsecured other loans of HK\$35 million (31 March 2004 : HK\$71 million). The bank loans together with other loans of approximately HK\$4 million are carrying interest at commercial rates while the remaining other loans are unsecured and interest free. The maturity profile of bank borrowings were HK\$18 million (31 March 2004 : HK\$21 million) falling within one year and HK\$66 million (31 March 2004: nil) falling between two to five years as at 30 September 2004.

The Company has not issued any additional share during the period ended 30 September 2004. During the year ended 31 March 2004, the Group issued 2,700,000 shares of HK\$0.10 each at the subscription price of HK\$0.1491 upon exercise of the options granted pursuant to the Company's share option scheme adopted on 22 September 1998.

## TREASURY POLICIES

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

## EMPLOYEES

At 30 September 2004, the Group employed a total of about 507 employees, of which 12 were based in Hong Kong and 495 in the PRC. Employee's remunerations are determined in accordance with nature of their duties and remain competitive under current market trend.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 September 2004, none of the directors of the Company had interests in or short positions of the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.



## DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the paragraph headed "Share Options Scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors, chief executives or their respective spouse, or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors and the chief executives to acquire such rights in any other body corporate.

## SHARE OPTIONS SCHEME

On 24 June 2003, the shareholders of the Company approved the termination of the share option scheme adopted 22 September 1998 (the "Old Scheme") and the adoption of a new scheme (the "New Scheme") as a result of the amendments of Chapter 17 of the Listing Rules. Upon termination of the Old Scheme, no further options would be offered pursuant to the Old Scheme but the Old Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted under it prior to its termination, and such outstanding options will continue to be valid and exercisable in accordance with the provision of the Old Scheme.

Details of options which have been granted under the Old Scheme as at 30 September 2004 were as follows:

Grantee	Date of grant	Exercise price (HK\$)	Number of options		
			At 1 April 2004	Exercised during the year	Lapsed during the year
<i>Employees</i>					
In aggregate	30 March 2001	0.1491	100,000	–	(100,000)

**SHARE OPTIONS SCHEME** (Continued)

Details of options which have been granted under the New Scheme and remain outstanding as at 30 September 2004 were as follows:

Grantee	Date of grant	Number of options granted	Exercise price (HK\$)	Number of options	
				Held at 1 April 2004	Held at 30 September 2004
<i>Director</i>					
Ma Zhengwu	8 March 2004	1,200,000	0.364	1,200,000	1,200,000
Zhang Guotong	8 March 2004	1,200,000	0.364	1,200,000	1,200,000
	27 September 2004	3,000,000	0.245	–	3,000,000
Li Tiefeng	8 March 2004	1,200,000	0.364	1,200,000	1,200,000
Wu Chun Wah,	8 March 2004	1,200,000	0.364	1,200,000	1,200,000
Michael	27 September 2004	3,000,000	0.245	–	3,000,000
Hong Shuikun	8 March 2004	1,200,000	0.364	1,200,000	1,200,000
Chen Shengjie	8 March 2004	1,200,000	0.364	1,200,000	1,200,000
Gu Laiyun	8 March 2004	1,200,000	0.364	1,200,000	1,200,000
	27 September 2004	2,000,000	0.245	–	2,000,000
		<u>16,400,000</u>			
<i>Employees</i>					
In aggregate	8 March 2004	16,750,000	0.364	16,750,000	14,600,000
	27 September 2004	24,050,000	0.245	24,050,000	24,050,000
		<u>40,800,000</u>			
Total		<u>57,200,000</u>			

## SUBSTANTIAL SHAREHOLDERS AND OTHERS

Substantial shareholders and others person who are required to disclose their interests pursuant to Part XV of the SFO.

As at 30 September 2004, the following shareholders had interests in or short positions of the shares and underlying shares of the Company as recorded in register required to be kept by the Company under section 336 of the SFO.

### Substantial shareholders of the Company

Name	Capacity	Number of shares held for long position	Approximate percentage
World Gain Holdings Limited	controlled corporation	608,201,500	36.05%
China Chengtong Hong Kong Company Limited	controlled corporation	608,201,500	36.05%
China Chengtong Holdings Company	beneficial owner ( <i>note</i> )	608,201,500	36.05%

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 30 September 2004.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 September 2004.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report, except that non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Article of Association.

## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") as contained in Appendix 10 to the Listing Rules. Following specific enquiry of the Company, the Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2004.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the six months ended 30 September 2004, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

**DISCLOSURE PURSUANT TO THE LISTING RULES**

As at 30 September 2004, the aggregate amount of advances made by the Group to its associate was approximately HK\$180,911,000.

The unaudited balance sheet of associate, Goodwill (Overseas) Limited as at 30 September 2004 disclosed in accordance with 13.22 of Chapter 13 of the Listing Rules is as follows:

	<i>HK'000</i>
Non-current assets	555,151
Current assets	23
Current liabilities	(564)
Net current liabilities	(541)
Non-current liabilities	
Shareholders' loans	(558,005)
Net liabilities	(3,395)

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

Hong Kong, 17 December 2004