## 1. GENERAL

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

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

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

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

***Basis of consolidation***

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

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

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

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

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

***Revenue recognition***

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Revenue recognition*** (continued)

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

***Investment properties***

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

***Property, plant and equipment***

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

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

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

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

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

***Subsidiaries***

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

***Investments in associates***

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Investment in a jointly controlled entity***

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

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

***Non-current assets held for sale***

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

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

***Inventories***

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

***Properties held for sales***

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

***Borrowing costs***

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Impairment of assets***

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

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

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

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

***Taxation***

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Foreign currencies***

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

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

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

***Operating leases***

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

*The Group as lessor*

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

*The Group as lessee*

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

***Financial instruments***

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

*Financial assets*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial instruments*** (continued)

*Financial assets* (continued)

Loans and receivables

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

*Financial liabilities and equity*

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

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

Financial liabilities

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

Equity instruments

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

*Derecognition*

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

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

***Provisions***

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

***Retirement benefits costs***

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

***Share-based payment transactions***

*Equity-settled share-based payment transactions*

Share options granted to the participants of the share options schemes

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

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

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

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

## 4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

***Interest rate risk***

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

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

***Credit risk***

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

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

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

## 5. SEGMENT INFORMATION

***Business Segments***

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

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

## 5. SEGMENT INFORMATION (continued)

***Business Segments*** (continued)

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

## 5. SEGMENT INFORMATION (continued)

***Business Segments*** (continued)

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

## 5. SEGMENT INFORMATION (continued)

***Business Segments*** (continued)

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

***Geographical Segments***

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

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

## 5. SEGMENT INFORMATION (continued)

***Geographical Segments*** (continued)

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

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

## 6. OTHER INCOME

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

## 7. FINANCE COSTS

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

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

## 8. TAXATION (continued)

A statement of reconciliation of taxation is as follows:

| | 2006 | 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.

## 9. DISCONTINUED OPERATIONS (continued)

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

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

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

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

## 9. DISCONTINUED OPERATIONS (continued)

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

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

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

***Repudiation of plan to dispose of interest in an associate***

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

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

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

## 9. DISCONTINUED OPERATIONS (continued)

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

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

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

## 10. PROFIT (LOSS) FOR THE YEAR

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

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

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

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

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### *(a) Directors' emoluments*

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

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

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

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

### *(b) Five highest paid individuals*

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

| | 2006 | 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.

## 12. EARNINGS (LOSS) PER SHARE (continued)

***From continuing operations***

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

Earnings (loss) figures are calculated as follows:

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

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

***From discontinued operations***

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

## 13. RETIREMENT BENEFITS SCHEMES

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

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

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

## 14. PROPERTY, PLANT AND EQUIPMENT

***THE GROUP***

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

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

***THE COMPANY***

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

## 15. INVESTMENT PROPERTIES

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

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

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

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

## 16. INTERESTS IN SUBSIDIARIES

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

## 16. INTERESTS IN SUBSIDIARIES (continued)

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

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

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

## 16. INTERESTS IN SUBSIDIARIES (continued)

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

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

## 17. INTERESTS IN ASSOCIATES AND AMOUNT DUE FROM AN ASSOCIATE

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

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

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

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

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

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

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

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

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

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

## 18. INTEREST IN A JOINTLY CONTROLLED ENTITY

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

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

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

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

## 19. INVENTORIES

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

## 20. TRADE AND OTHER RECEIVABLES

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

***Trade receivables***

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

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

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

## 21. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY

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

## 22. AMOUNTS DUE FROM RELATED COMPANIES

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

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

## 23. RESTRICTED BANK BALANCE

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

## 23. RESTRICTED BANK BALANCE (continued)

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

## 24. CASH AND BANK BALANCES

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

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

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

## 25. TRADE AND OTHER PAYABLES

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

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

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

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

## 26. PROVISION FOR A LEGAL CLAIM

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

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

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

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

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

## 27. LOAN FROM A RELATED COMPANY

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

## 28. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

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

## 29. UNSECURED OTHER LOANS

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

## 30. SECURED OTHER LOAN

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

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

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

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

## 31. DEFERRED TAXATION

***THE GROUP***

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

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

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

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

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

## 31. DEFERRED TAXATION (continued)

***THE COMPANY***

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

## 32. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

## 33. SHARE CAPITAL

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

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

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

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

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

## 34. SHARE OPTIONS SCHEME

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

Details of the Scheme are as follows:

***(i) Purpose***

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

***(ii) Participants***

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

***(iii) Maximum number of shares***

*(a) 30% limit*

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

*(b) 10% limit*

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

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

***(iv) Maximum entitlement of each participant***

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

## 34. SHARE OPTIONS SCHEME (continued)

***(v) Price of shares***

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

***(vi) Amount payable upon acceptance of the option***

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

***(vii) Exercisable periods***

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

***(viii) Vesting periods***

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

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

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

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

***(ix) The remaining life of the Scheme***

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

***(x) Shares available for issue under the Scheme***

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

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

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

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

## 34. SHARE OPTIONS SCHEME (continued)

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

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

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

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

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

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

## 35. RESERVES

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

***THE COMPANY***

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

## 36. FAIR VALUE OF OTHER FINANCIAL ASSETS AND LIABILITIES

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

## 37. COMMITMENTS

### (a) *Operating lease commitments as leasee*

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

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

Leases are negotiated for an average term of four years.

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

## 37. COMMITMENTS (continued)

### *(b) Operating leases commitments as lessor*

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

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

Leases are negotiated for an average term of five years.

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

## 38. RELATED PARTY TRANSACTIONS

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

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

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

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

## 39. POST BALANCE SHEET EVENTS

***Proposed rights issue***

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

***Subsequent acquisition activities***

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

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

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

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