



# CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 217)



**2008** Interim Report

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## BOARD OF DIRECTORS

### Executive Directors

Zhang Guotong (*Chairman and Managing Director*)

Wang Hongxin

### Non-Executive Directors

Gu Laiyun

Xu Zhen

### Independent Non-Executive Directors

Kwong Che Keung, Gordon

Tsui Yiu Wa, Alec

Lao Youan

Ba Shusong

## AUDIT COMMITTEE

Kwong Che Keung, Gordon (*Chairman*)

Tsui Yiu Wa, Alec

Lao Youan

Ba Shusong

Xu Zhen

## REMUNERATION COMMITTEE

Tsui Yiu Wa, Alec (*Chairman*)

Kwong Che Keung, Gordon

Lao Youan

Zhang Guotong

## NOMINATION COMMITTEE

Zhang Guotong (*Chairman*)

Kwong Che Keung, Gordon

Tsui Yiu Wa, Alec

Lao Youan

## COMPANY SECRETARY

Chan Yuet Kwai

## AUDITORS

Deloitte Touche Tohmatsu

*Certified Public Accountants*

Hong Kong

## PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

The Hongkong and Shanghai Banking

Corporation Limited

## REGISTERED OFFICE

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## SHARE REGISTRARS & TRANSFER OFFICE

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Services Limited

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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



## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**TO THE BOARD OF DIRECTORS OF  
CHINA CHENGTONG DEVELOPMENT GROUP LIMITED**

(Incorporated in Hong Kong with limited liability)

### INTRODUCTION

We have reviewed the interim financial information set out on pages 3 to 21, which comprises the condensed consolidated balance sheet of China Chengtong Development Group Limited as of 30 June 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
8 September 2008

**CONDENSED CONSOLIDATED INCOME STATEMENT**

For the six months ended 30 June 2008

	NOTES	Six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Continuing operations			
Turnover	3	10,240	17,860
Cost of sales		(6,082)	(6,250)
Gross profit		4,158	11,610
Other income		4,236	3,086
Selling expenses		(163)	(613)
Administrative expenses		(15,916)	(12,118)
Provision for claim	16	(1,900)	—
Share of result of a jointly controlled entity		(668)	(823)
Share of results of associates		(1,179)	(174)
Finance costs		—	(113)
(Loss) profit before taxation		(11,432)	855
Taxation credit (charge)	4	353	(2,457)
Loss for the period from continuing operations		(11,079)	(1,602)
Discontinued operations			
Profit for the period from discontinued operations	5	—	32,011
(Loss) profit for the period	6	(11,079)	30,409
Attributable to:			
Shareholders of the Company		(11,079)	29,125
Minority interests		—	1,284
(Loss) earnings per share	7	(11,079)	30,409
From continuing and discontinued operations:			
Basic		HK(0.414) cent	HK1.080 cent
Diluted		N/A	HK1.064 cent
From continuing operations:			
Basic		HK(0.414) cent	HK(0.112) cent
Diluted		N/A	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2008

	NOTES	30.6.2008 HK\$'000 (Unaudited)	31.12.2007 HK\$'000 (Audited and restated)
<b>Non-current assets</b>			
Property, plant and equipment	8	4,614	3,232
Investment properties	8	89,270	83,740
Interests in associates	9	44,000	41,599
Amounts due from associates		129,890	139,874
Interest in a jointly controlled entity	10	—	103,881
Restricted bank balance	11	4,200	4,200
		<b>271,974</b>	<b>376,526</b>
<b>Current assets</b>			
Properties held for sale		25,259	32,678
Properties under development		684,848	—
Trade and other receivables	12	276,158	7,959
Bills receivables	12	3,390	5,035
Amounts due from associates		51	9,724
Amounts due from related companies		5,014	4,741
Tax recoverable		14,192	—
Bank balances and cash		304,104	298,626
		<b>1,313,016</b>	<b>358,763</b>
<b>Current liabilities</b>			
Trade and other payables	13	102,986	48,919
Provision for claim	16	1,900	—
Deposits received on sale of properties		473,122	11,410
Amounts due to related companies		930	17,084
Amounts due to minority shareholders of subsidiaries		6,239	3,978
Tax payable		3,718	12,505
Bank loan	14	226,000	—
Unsecured other loans		3,260	3,260
		<b>818,155</b>	<b>97,156</b>
Net current assets		<b>494,861</b>	<b>261,607</b>
Total assets less current liabilities		<b>766,835</b>	<b>638,133</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		5,550	4,737
Net assets		<b>761,285</b>	<b>633,396</b>
<b>Capital and reserves</b>			
Share capital	15	267,649	267,202
Reserves		378,011	366,194
Equity attributable to shareholders of the Company		<b>645,660</b>	<b>633,396</b>
Minority interests		115,625	—
Total equity		<b>761,285</b>	<b>633,396</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Legal surplus	Share options reserve	Accumulated profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007											
– As originally stated	202,350	67,145	402	—	6,638	565	7,066	88,646	372,812	28,243	401,055
– Prior period adjustment (note 1)	—	—	—	—	—	—	—	9,842	9,842	—	9,842
– As restated	202,350	67,145	402	—	6,638	565	7,066	98,488	382,654	28,243	410,897
Exchange realignment	—	—	—	—	3,218	—	—	—	3,218	1,793	5,011
Exchange differences arising on translation of operation of a jointly controlled entity	—	—	—	—	5,616	—	—	—	5,616	—	5,616
Share of exchange reserve in an associate	—	—	—	—	644	—	—	—	644	—	644
Net income recognised directly in equity	—	—	—	—	9,478	—	—	—	9,478	1,793	11,271
Release and transfer upon disposal of subsidiaries	—	—	—	—	(1,556)	(565)	—	877	(1,244)	—	(1,244)
Profit for the year	—	—	—	—	—	—	—	35,945	35,945	834	36,779
Total recognised income and expense for the year	—	—	—	—	7,922	(565)	—	36,822	44,179	2,627	46,806
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	24,420	24,420
Release upon acquisition of additional interests in a subsidiary	—	—	—	—	—	—	—	—	—	(28,799)	(28,799)
Release upon disposal of subsidiaries	—	—	—	—	—	—	—	—	—	(26,491)	(26,491)
Deemed contribution from substantial shareholder	—	—	—	2,814	—	—	—	—	2,814	—	2,814
Rights issue of shares	60,706	139,622	—	—	—	—	—	—	200,328	—	200,328
Capitalisation of share issue expenses	—	(6,738)	—	—	—	—	—	—	(6,738)	—	(6,738)
Issue of shares upon exercise of share options	4,146	12,067	—	—	—	—	(6,054)	—	10,159	—	10,159
At 31 December 2007 (restated)	267,202	212,096	402	2,814	14,560	—	1,012	135,310	633,396	—	633,396

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**

For the six months ended 30 June 2008

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Legal surplus	Share options reserve	Accumulated profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note)							
Exchange realignment	—	—	—	—	11,874	—	—	—	11,874	—	11,874
Exchange differences arising on translation of operation of a jointly controlled entity	—	—	—	—	6,517	—	—	—	6,517	—	6,517
Shares of exchange reserve in an associate	—	—	—	—	3,844	—	—	—	3,844	—	3,844
Net income recognised directly in equity	—	—	—	—	22,235	—	—	—	22,235	—	22,235
Loss for the period	—	—	—	—	—	—	—	(11,079)	(11,079)	—	(11,079)
Total recognised income and expense for the period	—	—	—	—	22,235	—	—	(11,079)	11,156	—	11,156
Deemed acquisition of a subsidiary by acquiring additional interest in a jointly controlled entity	—	—	—	—	—	—	—	—	—	115,625	115,625
Issue of shares upon exercise of share options	447	1,299	—	—	—	—	(638)	—	1,108	—	1,108
At 30 June 2008 (unaudited)	267,649	213,395	402	2,814	36,795	—	374	124,231	645,660	115,625	761,285



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)**

For the six months ended 30 June 2008

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Exchange reserve	Legal surplus	Share options reserve	Accumulated profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007											
– As originally stated	202,350	67,145	402	—	6,638	565	7,066	88,646	372,812	28,243	401,055
– Prior period adjustment (note 1)	—	—	—	—	—	—	—	9,842	9,842	—	9,842
– As restated	202,350	67,145	402	—	6,638	565	7,066	98,488	382,654	28,243	410,897
Exchange realignment	—	—	—	—	1,847	—	—	—	1,847	436	2,283
Exchange differences arising on translation of operation of a jointly controlled entity	—	—	—	—	2,874	—	—	—	2,874	—	2,874
Net income recognised directly in equity	—	—	—	—	4,721	—	—	—	4,721	436	5,157
Release and transfer upon disposal of subsidiaries	—	—	—	—	(1,556)	(565)	—	877	(1,244)	(4,073)	(5,317)
Profit for the period	—	—	—	—	—	—	—	29,125	29,125	1,284	30,409
Total recognised income and expense for the period	—	—	—	—	3,165	(565)	—	30,002	32,602	(2,353)	30,249
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	24,420	24,420
Deemed contribution from substantial shareholder	—	—	—	2,814	—	—	—	—	2,814	—	2,814
Rights issue	60,705	139,623	—	—	—	—	—	—	200,328	—	200,328
Capitalisation share issue expenses	—	(6,223)	—	—	—	—	—	—	(6,223)	—	(6,223)
Issue of shares upon exercise of share options	350	826	—	—	—	—	(466)	—	710	—	710
At 30 June 2007 (unaudited)	263,405	201,371	402	2,814	9,803	—	6,600	128,490	612,885	50,310	663,195

Note: Capital reserve represented the deemed contribution from a substantial shareholder of the Company arising from acquisition of a subsidiary, 洛陽城南中儲物流有限公司("洛陽城南"), from a subsidiary of the substantial shareholder of the Company.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 30 June 2008

	NOTE	Six months ended 30 June	
		2008	2007
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Net cash used in operating activities		<b>(15,031)</b>	(6,428)
Net cash generated from (used in) investing activities:			
Capital contribution to a jointly controlled entity		<b>(5,895)</b>	—
Purchase of property, plant and equipment		<b>(821)</b>	(933)
Distribution from an associate upon liquidation		<b>264</b>	—
Repayment of amount due from an associate		<b>19,657</b>	8,736
Advance to an associate		—	(17,659)
Interest received		<b>1,836</b>	1,813
Increase in short term deposits		—	(99,918)
Acquisition of subsidiaries	19	<b>14,693</b>	(39,725)
Disposal of subsidiaries		—	(326)
Deposit paid for acquisition of additional interest in a subsidiary		—	(16,800)
		<b>29,734</b>	(164,812)
Net cash (used in) generated from financing activities			
Rights issue of shares		—	200,328
Share issue expenses paid		—	(6,223)
Issue of shares upon exercise of share options		<b>1,108</b>	710
Decrease in amounts due to related companies		<b>(16,212)</b>	—
		<b>(15,104)</b>	194,815
Net (decrease) increase in cash and cash equivalents		<b>(401)</b>	23,575
Cash and cash equivalents at beginning of the period		<b>298,626</b>	117,372
Effect of foreign exchange rate changes		<b>5,879</b>	2,137
Cash and cash equivalents at end of the period, represented by balances and cash		<b>304,104</b>	143,084

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 1. Basis of preparation

The condensed consolidated 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 "Stock Exchange") and with Hong Kong Accounting Standard (the "HKAS") 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated 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.

During the current period, a subsidiary of the Company, which had been under involuntary liquidation since 2004, was found to be dissolved in October 2006. Accordingly, a prior period adjustment is made in the condensed consolidated financial statements to recognise the gain on winding up of the subsidiary. It resulted in an adjustment to decrease the trade and other payables and unsecured other loans at 1 January 2007 by HK\$5,906,000 and HK\$3,936,000, respectively, and a corresponding increase in the opening balance of accumulated profits as at 1 January 2007 of HK\$9,842,000. The effect of such change had no significant impact on the profit for the year ended 31 December 2007 and the profit/loss for the period ended 30 June 2007 and 30 June 2008.

### 2. Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time new interpretations ("new Interpretations") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2008. The adoption of the new Interpretations has no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business combinations <sup>2</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC)* - INT 13	Customer loyalty programmes <sup>3</sup>
HK(IFRIC) - INT 15	Agreements for the construction of real estate <sup>1</sup>
HK(IFRIC) - INT 16	Hedges of a net investment in a foreign operation <sup>4</sup>

## 2. Significant accounting policies (continued)

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008.

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008.

\* *IFRIC represents the International Financial Reporting Interpretations Committee.*

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

## 3. Turnover and segment information

### *Business segments*

The Group's principal activities are property investment and property development. These business segments are the basis on which the Group reports its primary segment information. During the period ended 30 June 2007, the Group discontinued its business of trade and manufacture of cement. Segment information about these businesses is presented as below:

### 30 June 2008

	Continuing operations			Discontinued operations		
	Property investment <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Sub total <i>HK\$'000</i>	Trade and manufacturing of cement <i>HK\$'000</i>	Sub total <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover						
Segment turnover	902	9,338	10,240	—	—	10,240
Result						
Segment result	371	262	633	—	—	633
Unallocated corporate expenses			(13,644)			(13,644)
Unallocated other income			3,426			3,426
Share of result of a jointly controlled entity			(668)			(668)
Share of result of associates			(1,179)			(1,179)
Loss before taxation			(11,432)			(11,432)
Taxation credit			353			353
Net loss for the period			(11,079)			(11,079)

### 3. Turnover and segment information (continued)

#### Business segments (continued)

30 June 2007

	Continuing operations			Discontinued operations		
	Property investment	Property development	Sub total	Trade and manufacturing of cement	Sub total	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
Segment turnover	611	17,249	17,860	27,454	27,454	45,314
Result						
Segment result	358	7,543	7,901	32,008	32,008	39,909
Unallocated corporate expenses			(8,979)		—	(8,979)
Unallocated other income			3,043		3	3,046
Share of result of a jointly controlled entity			(823)		—	(823)
Share of result of associates			(174)		—	(174)
Finance costs			(113)		—	(113)
Profit before taxation			855		32,011	32,866
Taxation charge			(2,457)		—	(2,457)
Net (loss) profit for the period			(1,602)		32,011	30,409

### 4. Taxation credit (charge)

	Continuing operations	
	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
The taxation credit (charge) comprises:		
Continuing operations		
Current tax credit (charge)		
Hong Kong	—	—
People's Republic of China ("PRC")	317	(2,478)
Deferred tax credit	36	21
Taxation credit (charge) for the period	353	(2,457)

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for both periods.

PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the PRC on the estimated assessable profits of the Group's PRC subsidiaries. The taxation credit for current period represented overprovision in prior years.

## 5. Discontinued operations

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

	Six months ended 30 June 2007 HK\$'000
Turnover	27,454
Cost of sales	(24,621)
Other income	247
Gain on disposal of subsidiaries	32,003
Selling expenses	(560)
Administrative expenses	(2,512)
	<hr/>
Profit for the period from discontinued operations	32,011
	<hr/> <hr/>
Attributable to:	
Shareholders of the Company	32,154
Minority interests	(143)
	<hr/>
	32,011
	<hr/> <hr/>

## 6. (Loss) profit for the period

	Continuing operations		Discontinued operations		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June	
	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) profit for the period has been arrived at after charging:						
Depreciation of property, plant and equipment	574	334	—	1,047	574	1,381
Exchange loss	476	279	—	—	476	279
Loss on disposal of property, plant and equipment	10	—	—	—	10	—
and after crediting:						
Interest income	1,836	1,810	—	3	1,836	1,813
Gain on disposal of investment held for trading	1,403	1,225	—	—	1,403	1,225
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 7. (Loss) earnings per share

### From continuing and discontinued operations

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

	Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share attributable to equity holders of the Company	<u>(11,079)</u>	<u>29,125</u>
	Number of shares	
	2008	2007
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>2,675,712,352</u>	2,697,610,900
Effect of dilutive potential ordinary shares in respect of share options		<u>40,811,078</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>2,738,421,978</u>

### From continuing operations

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

(Loss) earnings figures are calculated as follows:

	Six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
(Loss) profit for the period attributable to shareholders of the Company and (loss) earnings for the purposes of basic and diluted (loss) earnings per share	<u>(11,079)</u>	29,125
Less: Profit for the period attributable to shareholders of the Company from discontinued operations	<u>—</u>	<u>(32,154)</u>
Loss for the period attributable to shareholders of the Company and loss for the purposes of basic and diluted loss per share from continuing operations	<u>(11,079)</u>	<u>(3,029)</u>

## 7. (Loss) earnings per share (continued)

The denominators used are the same as those detailed above for both basic and diluted (loss) earnings per share. No diluted loss per share for continuing operations for both periods have been presented because the exercise of share options will be anti-dilutive.

### From discontinued operations

Basic and diluted earnings per share for discontinued operations for the period ended 30 June 2007 are HK1.192 cent per share and HK1.176 cent per share respectively.

## 8. Movements in property, plant and equipment and investment properties

During the period, the Group spent approximately HK\$821,000 (six months period ended 30 June 2007: HK\$933,000) on acquisition of property, plant and equipment.

During the period, the Group acquired property, plant and equipment of HK\$994,000 (six months period ended 30 June 2007: HK\$1,204,000) through acquisition of subsidiaries as described in note 19.

Investment properties:

	<b>30.6.2008</b>	31.12.2007
	<b>HK\$'000</b>	HK\$'000
FAIR VALUE		
At beginning of period/year	<b>83,740</b>	45,000
Addition from acquisition of a subsidiary	—	32,844
Addition	—	436
Increase in fair value	—	1,460
Currency realignment	<b>5,530</b>	4,000
At end of period/year	<b>89,270</b>	83,740

At 30 June 2008, the directors have considered the Group's investment properties are carried at fair values at the balance sheet date. No gains or losses arising from changes in the fair value has been recognised in profit or loss during the current period.

## 9. Interests in associates

	<b>30.6.2008</b>	31.12.2007
	<b>HK\$'000</b>	HK\$'000
Cost of investments in associates	<b>49,076</b>	61,261
Share of post acquisition losses	<b>(1,876)</b>	(12,618)
Share of post acquisition reserves	<b>4,488</b>	644
	<b>51,688</b>	49,287
Unrealised gain on disposal of subsidiaries to an associate	<b>(7,688)</b>	(7,688)
	<b>44,000</b>	41,599



## 10. Interest in a jointly controlled entity

	30.6.2008	31.12.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investment in a jointly controlled entity	—	98,174
Share of post acquisition losses	—	(2,203)
Exchange differences arising on translation of operation of the jointly controlled entity	—	7,910
	<u>—</u>	<u>103,881</u>
	<u>—</u>	<u>103,881</u>

The principal investment in a jointly controlled entity at 30 June 2007 represented 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) ("Huzhou Wangang"). During the period, Huzhou Wangang became a subsidiary of the Company as described in note 19.

## 11. Restricted bank balance

Pursuant to the order of the High Court of the Hong Kong Special Administrative Region dated 20 June 2006 confirming the cancellation of the entire sum standing to the credit of the share premium account of the Company as at 31 December 2004 and set off with the accumulated loss of the Company as at 31 December 2004 (the "Capital Reduction") 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 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.

## 12. Trade and other receivables and bills receivables

	<b>30.6.2008</b>	31.12.2007
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>3,101</b>	3,176
Other receivables	<b>159,992</b>	2,207
Prepayments and deposits	<b>113,065</b>	2,576
	<hr/>	<hr/>
Total trade and other receivables	<b>276,158</b>	7,959
	<hr/> <hr/>	<hr/> <hr/>
Bills receivables	<b>3,390</b>	5,035
	<hr/> <hr/>	<hr/> <hr/>

The Group allows an average credit period of 30 days (31 December 2007: 30 days) to its trade customers on open account credit terms. The aged analysis of the trade receivables is as follows:

	<b>30.6.2008</b>	31.12.2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>100</b>	90
One to two years	<b>—</b>	85
Over three years	<b>3,001</b>	3,001
	<hr/>	<hr/>
	<b>3,101</b>	3,176
	<hr/> <hr/>	<hr/> <hr/>

The bills receivables are aged within six months (2007: aged within six months).

## 13. Trade and other payables

	<b>30.6.2008</b>	31.12.2007
	<b>HK\$'000</b>	HK\$'000
		(restated)
Trade payables	<b>11,840</b>	12,933
Other payables and accruals	<b>91,146</b>	35,986
	<hr/>	<hr/>
	<b>102,986</b>	48,919
	<hr/> <hr/>	<hr/> <hr/>

The aged analysis of the trade payables is as follows:

	<b>30.6.2008</b>	31.12.2007
	<b>HK\$'000</b>	HK\$'000
		(restated)
Within one year	<b>2,545</b>	—
One to two years	<b>40</b>	—
Two to three years	<b>—</b>	7,149
Over three years	<b>9,255</b>	5,784
	<hr/>	<hr/>
	<b>11,840</b>	12,933
	<hr/> <hr/>	<hr/> <hr/>

#### 14. Bank loan

	30.6.2008	31.12.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank loan repayable within one year	<u>226,000</u>	<u>—</u>

The bank loan carries interest at 8.316% per annum, which is 10% above the interest rate per annum offered by The People's Bank of China, and will be repriced every twelve months upon revolving.

The bank loan is secured by the land use right included in properties under development of the Group and guarantee provided by 浙江雲廈集團有限公司, a minority shareholder of a subsidiary.

#### 15. Share capital

	Number of shares '000	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each issued and fully paid		
At 1 January 2007	2,023,505	202,350
Exercise of share options	41,464	4,146
Rights issue	607,051	60,706
	<u>2,672,020</u>	<u>267,202</u>
At 31 December 2007 and 1 January 2008	2,672,020	267,202
Exercise of share options	4,468	447
	<u>2,676,488</u>	<u>267,649</u>

#### 16. Provision for claim

On 29 July 2008, 中實投資有限責任公司 ("Zhongshi"), a wholly owned subsidiary of the Company, has received a summon issued by an independent contractor against Zhongshi to recover the unpaid contract fee for a property project of Zhongshi before the Group acquired Zhongshi in 2004 and the interest accrued thereon in the aggregate sum of RMB3,760,861 (equivalent to approximately HK\$4,250,000). With reference to the financial records of Zhongshi, Zhongshi has partly paid the related contract fee amounting to approximately RMB1,400,000 to this contractor in the previous years. The directors of the Company are of the view that Zhongshi may be required to settle most of the unpaid contract fee. Accordingly, a provision for claim of HK\$1,900,000 was made for the current period.

## 17. Operating lease commitments

### As lessee

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

	<b>30.6.2008</b>	31.12.2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>2,643</b>	2,513
In the second to fourth years	<b>753</b>	1,990
	<b><u>3,396</u></b>	<u>4,503</u>

### As lessor

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

	<b>30.6.2008</b>	31.12.2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,308</b>	1,391
In the second to fifth year inclusive	<b>1,163</b>	1,653
	<b><u>2,471</u></b>	<u>3,044</u>

## 18. Other commitments

	30.6.2008	31.12.2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitment in respect of acquisition of certain pieces of land in the PRC authorised but not contracted for	<b>282,500</b>	—
Other commitment in respect of properties under development contracted for but not provided in the condensed consolidated financial statements	<b>37,442</b>	—
	<b>319,942</b>	—

## 19. Acquisition of subsidiaries

During the period ended 30 June 2008, the Group acquired a subsidiary, Huzhou Wangang (previously a 50% jointly controlled entity of the Group, see note 10), through additional capital injection amounted to RMB104,800,000 (equivalent to approximately HK\$118,424,000) to Huzhou Wangang ("Capital Injection") pursuant to a capital injection agreement entered into between a wholly-owned subsidiary of the Company and the other two joint venture owners of Huzhou Wangang ("Capital Injection Agreement"). According to the Capital Injection Agreement, the additional capital contribution of RMB104,800,000 made by the Group to Huzhou Wangang shall not be applied to the development and operation of the existing property development project of Huzhou Wangang ("Huzhou Project") and all profits or losses arising from Huzhou Project shall be shared by the Group and the two minority owners in the proportion of the shareholding before the Capital Injection (i.e. 50% to the Group and 50% to the other two minority owners). Upon completion of the Capital Injection, the Company indirectly owned a 67.08% equity interest in Huzhou Wangang except that the accumulated profits or losses arising from Huzhou Project shall be shared by the Group and the two minority owners in the proportion of the shareholding before the Capital Injection (i.e. 50% to the Group and 50% to the other two minority owners). The principal assets of Huzhou Wangang comprise properties under development and, therefore, this acquisition is accounted for as acquisition of assets.

During the period ended 30 June 2007, the Group acquired the entire equity interest in 洛陽城南 and 52% equity interest in 西安富祥房地產開發有限公司("西安富祥") through its then 70% owned subsidiary. The principal assets of 洛陽城南 and 西安富祥 comprise investment property and properties under development respectively and the acquisitions have been accounted for as acquisitions of assets.

## 19. Acquisition of subsidiaries (continued)

The net assets acquired in these transactions are as follows:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>Huzhou</b>	西安富祥
	<b>Wangang</b>	and 洛陽城南
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net assets acquired:		
Property, plant and equipment	994	1,204
Investment property	—	32,844
Properties under development	684,848	77,971
Trade and other receivables	269,099	556
Bills receivable	3,390	—
Tax recoverable	14,192	—
Bank balances and cash	14,693	875
Trade and other payables	(62,643)	(2,639)
Deposits received on sale of properties	(465,062)	—
Amounts due to minority shareholders	(2,261)	—
Amounts due to related companies	—	(19,727)
Bank loans	(226,000)	(11,220)
	<u>231,250</u>	<u>79,864</u>
Minority interests	(115,625)	(24,420)
Deemed contribution from substantial shareholder	—	(2,814)
	<u>115,625</u>	<u>52,630</u>
Release of interest in a jointly controlled entity on date of acquisition of a subsidiary	(115,625)	—
	<u>—</u>	<u>52,630</u>
Total consideration, satisfied by:		
Cash	—	40,600
Deferred consideration	—	12,030
	<u>—</u>	<u>52,630</u>
Net cash inflow arising on acquisition:		
Cash consideration paid	—	(40,600)
Bank balances and cash acquired	14,693	875
	<u>14,693</u>	<u>(39,725)</u>

## 20. Related party transactions

- (a) During the period, the Group had entered into the following significant transactions with the following related parties:

Name of related parties	Nature of transactions	Six months ended 30 June	
		2008 HK\$'000	2007 HK\$000
Associates:			
CIMPOR Chengtong Cement Corporation Limited	Consultancy and service income	180	—
蘇州南達水泥有限公司	Interest income	311	—

- (b) On 8 June 2007, the Group acquired an investment property and properties under development through acquisition of entire equity interest in 洛陽城南 and 52% equity interest in 西安富祥 by its then 70% owned subsidiary, 中實投資有限責任公司 (“Zhongshi”), at consideration of RMB26,680,000 (equivalent to approximately HK\$27,030,000) and RMB25,600,000 (equivalent to approximately HK\$25,600,000) from two subsidiaries of China Chengtong Holdings Group Limited, a holding company of a substantial shareholder of the Company respectively.

## 21. Subsequent event

On 31 July 2008, the Company announced that Yu Bingham, an individual who is a third party independent of the Company, (the “Agent”) acting as an agent on behalf of Zhongshi and 北京世紀尊博投資有限公司 (Beijing Century Zun Bo Investment Co., Ltd.) (the “JV Partner”) won a public tender on 21 July 2008 to acquire three pieces of land located in Zhucheng City, Shandong Province, the PRC. On 21 July 2008, the Agent, acting on behalf of Zhongshi and the JV Partner, signed three separate confirmation letters with 諸城市國有資產經營總公司 (Zhucheng City State Asset Operation Company) and 諸城市土地儲備中心 (Zhucheng City Land Reserves Centre) confirming the winning of the tender of the three pieces of land. The total consideration of the three pieces of land is amounting to RMB248,759,400 (equivalent to approximately HK\$281,098,000) and their designated usage are residential and commercial. On 31 July 2008, following the successful tender of the three pieces of land, Zhongshi and the JV Partner entered into three joint venture agreements to establish three companies (the “JV Companies”), with the same shareholding structure of 80% and 20% respectively, and these three JV Companies have been established on 12 August 2008 for the purposes to individually hold and develop the three pieces of land tendered.

Following the issue of the Company's announcement dated 31 July 2008, the Agent, acting on behalf of Zhongshi and the JV Partner, won another public tender to acquire a piece of land (“Land A”) in Zhucheng City, Shandong Province, the PRC. On 8 August 2008, the Agent (acting on behalf of Zhongshi and the JV Partner) signed a confirmation letter with 諸城市國有資產經營總公司 and 諸城市土地儲備中心 confirming the winning of the tender of Land A. The consideration of Land A is amounting to RMB10,835,415 (equivalent to approximately HK\$12,244,000) and its designated usage is residential. As disclosed in the Company's circular dated 21 August 2008, Zhongshi and the JV Partner owns 80% and 20% interests in Land A respectively. Zhongshi and the JV Partner shall inject their respective interests in Land A into one of the JV Companies which holds one piece of land tendered on 21 July 2008 (“Land B”) by way of shareholders' loans. Land A and Land B will be jointly developed by this project company.

## INTERIM DIVIDEND

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL RESULTS

Turnover from the Group's continuing operations for the period under review was approximately HK\$10.2 million, representing a decrease of approximately 43% as compared to approximately HK\$17.9 million for the same period of last year. The turnover of the Group for both the period under review and for the same period of last year comprised mainly of the sales revenue of the property development project City of Mergence ("Beijing City of Mergence") in Beijing, the People's Republic of China (the "PRC").

During the period under review, the Group recorded a loss from continuing operations of approximately HK\$11.1 million as compared to a loss of approximately HK\$1.6 million from continuing operations and a net profit attributable to shareholders of approximately HK\$29.1 million recorded for the same period of last year. In addition to a decrease in sales revenue from Beijing City of Mergence, an increase in administrative expenses by approximately HK\$3.8 million and a provision of HK\$1.9 million for claim relating to the unpaid contract fee for a property project, it was mainly due to a gain of approximately HK\$32 million from the disposal of a subsidiary, Sea-Land Mining Limited, during the same period of last year.

During the period under review, mainly due to the appreciation of Renminbi, the equity attributable to shareholders of the Group increased to approximately HK\$646 million as at 30 June 2008 from approximately HK\$633 million as at 31 December 2007.

### BUSINESS REVIEW

#### *Property Development*

##### Huzhou

In 2006, the Group acquired 50% indirect interest in a sino-foreign joint venture Huzhou Wangang United Estate Company Limited (湖州萬港聯合置業有限公司) ("Huzhou Wangang"). The sole business of the company then was a property development project ("Qinghe Jiayuan" (清河嘉園)) with a site area of approximately 214,000 square metres and gross floor area of 320,000 square metres located at Huzhou City of Zhejiang Province in the PRC as resettlement housing for local rural residents due to demolition or relocation reasons. The whole project will be acquired by the Management Committee of Huzhou Economic Development Zone at an agreed consideration. It is expected that Qinghe Jiayuan will contribute sales and profits to the Group in the second half of 2008 and the year of 2009.

Huzhou Wangang is currently seeking for potential investment and development opportunities in Zhejiang Province of the PRC for the next property project upon completion of the Qinghe Jiayuan.



## Beijing

During the first half of 2008, Beijing City of Mergence located at Xicheng District of Beijing had sold approximately 467 square metres of commercial units in area and approximately 664 square metres of commercial area for warehousing purpose. During the same period of last year, approximately 858 square metres of commercial units in area and 4 parking spaces were sold. The sales revenue in 2008 decreased as compared to the same period of last year due to the lower selling price of commercial area for warehousing purpose. As at 30 June 2008, 101 parking spaces and approximately 2,070 square metres of commercial and warehousing area in aggregate remained unsold in Beijing City of Mergence.

Beijing City of Mergence was held by the Group through its formerly 70% owned subsidiary Zhongshi Investment Company Limited ("Zhongshi"), and the acquisition of the remaining 30% equity interest of Zhongshi by the Group was completed in 2007. Zhongshi became a wholly-owned subsidiary of the Group and acted as a platform for expanding the property development business in the PRC.

## Shandong

Zhucheng City of Shandong Province in the PRC is located in the southeast area of Shandong Peninsula, with a total area of 2,183 square kilometres and a population of 1.06 million. It is one of the externally open national coastal cities confirmed by the State Council as well as a city for trial implementation of integrated reforms and rural urbanization. It is ranked the 43rd among the top 100 most prosperous counties at national level in terms of economic power. There has been a trend for rapid commencement of development in the real estate market of Zhucheng in recent years. Improvement in housing conditions by local residents increased the need for quality properties. However, the current level of housing prices and development capability of the local economy are relatively lower, with potential for an upward surge.

The Group and the joint venture partner acquired 4 plots of land located at Zhucheng City of Shandong Province in the PRC by successful tenders through representing agent in July and August 2008 for a total consideration of approximately RMB260 million, and established 3 joint venture companies each with a shareholding structure of 80% and 20% respectively for holding and the developing these land plots. The site areas of the 4 plots of land are 99,599 square metres, 133,333 square metres, 100,000 square metres and 12,673 square metres respectively, i.e. approximately 350,000 square metres in aggregate. Except a site of 26,669 square metres in one of them which was planned for the development of a five-star hotel and will be fully responsible by the joint venture partner for its development and all the relevant costs and expenses, these land plots will be mainly developed into luxurious residential housing with a portion of commercial properties. The Group considers that the land price of the Zhucheng project acquired by the Group in Shandong is relatively low, with small risk in costs and a good growth potential. It is expected to bring in substantial contributions of profits and shareholders' returns for the Group in future.

## *Property Investment*

### Guangzhou

The area for the retail shop of the Group located at Zone C of Level 3 at Li Wan Plaza in Guangzhou of the PRC with approximately 5,370 square metres generated rental income of approximately RMB510,000 for the Group in the first half of 2008, representing an increase of approximately 15% as compared to the same period of last year.

## Shanghai

Price Sales Limited, the wholly-owned subsidiary of the Group, owns 32% interest in Goodwill (Overseas) Limited, its associated company. In 2008, Goodwill (Overseas) Limited continued to share in the cash inflow arising from the rental income from East Ocean Centre Phase II located in Shanghai of the PRC. In the first half of 2008, East Ocean Centre Phase II continued to maintain its high occupancy rate, with rental income of approximately RMB29.8 million.

## *Land Resource Exploitation*

### Luoyang

The Group acquired a piece of land together with the warehouse complex erected thereon with site area of approximately 80,000 square metres located at Luoyang City of the PRC from China Chengtong Holdings Group Limited (“CCHG”) through Zhongshi in 2007. The land has been zoned into commercial development area. The Group has an intention of making application for a change of its use from industrial to commercial in view of future market environment, resources as well as relevant laws and regulations. The land and its logistic assets as a whole are currently leased to a cooperation partner for use as a logistics centre.

## *Strategic Investment*

### Cement

The Group held 20% equity interest in Cimpor Chengtong Cement Corporation Limited (the “Joint Venture”). At present, the Joint Venture mainly controls two domestic cement production companies in Shandong and Suzhou. During the period under review, the cement production company in Shandong turned from loss into profit, total production of cement and clinker amounted to approximately 1.62 million tonnes and profit attributable to shareholders of approximately HK\$16.8 million was recorded. Meanwhile, the consolidated loss attributable to the shareholders of the Joint Venture of approximately HK\$5.9 million was mainly due to unrealized exchange losses of its shareholder’ loans denominated in euros . By using the equity method of accounting, the Group shared its attributable loss to shareholder of approximately HK\$1.2 million. In order to improve the structure of assets and liabilities of the PRC domestic companies, reduce financial expenses and for further investment, after completing an increase of capital of RMB270 million in the Shandong company in the second half of 2007, the Joint Venture further increased its capital contribution by RMB200 million in August 2008, and the equity interest in the Shandong company held by the Joint Venture thus increased to 97.6%.

During the first half of 2008, the Joint Venture has been very active in identifying and negotiating for suitable targets for acquisition among the cement production enterprises in the regions of Jiangsu and Zhejiang Provinces. Looking ahead in the second half of 2008, the Joint Venture will make continuous endeavours in negotiating for the acquisition of cement enterprises and invest in the construction of new cement production lines in order to increase its market share substantially in the cement industry of mainland China.

## OUTLOOK

### *Property Development*

At present, money supply is tightened further to control inflation in the PRC, which will bring about much pressure on the funding needs of real estate companies with excessive land reserves. Bubbles in the housing prices have occurred in the Tier 1 cities and some of the Tier 2 cities which are facing downward pressure on housing prices. As such, the management of the Group has adopted more prudent investment strategies: (1) Stable and healthy financial conditions will be maintained by the Group as a condition precedent for investments in real estate projects. (2) The real estate market is a regional market in the vast land of China. Although Tier 1 cities are facing volatile fluctuations in housing prices, the progress of urbanization will create room for more increases in the housing prices of some regions. Hence, we shall focus on Tier 2 and Tier 3 cities and select those regions with more population, more well-developed private economic sectors and cities with low housing prices as compared to other cities at the same level of economic development. (3) The prevailing macroeconomic conditions of tight money supply will be fully utilized so the Group can acquire land at low prices to strengthen the marginal security for its investments. (4) Projects of a certain scale for investment which are able to contribute profits and turnover to the Group continuously in the next few years will be selected. The investment in the Zhucheng project in Shandong is in compliance with the above strategies and has fully considered the strict macroeconomic situation. The management is convinced that the Zhucheng project will continue to bring satisfactory returns in the future.

In addition, the Group considers that the various austerity measures adopted continuously by the PRC Government in recent years are helpful in regulating the real estate market. And for the past few months, the PRC Government emphasized continuously on the stability and healthy development of the real estate market with appropriate relaxation of restrictions to the admission of foreign investments into the domestic real estate sector. These will help to avoid volatile fluctuations of the real estate market and maintain a relatively stable and orderly development of the real estate market.

### *Land Resource Exploitation*

CCHG has dedicated its efforts to utilize its land resource advantage and to strengthen the cooperation with the Group. The Group is also seeking quality land with good potential to expand and strengthen the land resource basis of the Group. For the first half of 2008, CCHG achieved new progress in the trial run of its asset operations. With the approval from the State Council, the China International Enterprises Co-operative Corporation (中國國際企業合作公司), another central enterprise was merged into CCHG, pursuant to the latest arrangement of the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"). Within the next two years, the merging of central enterprises will speed up to consolidate 160 enterprises into 80-100 enterprises. It is certain that CCHG will be one of the two platforms for asset operations and will undertake more important tasks. One of the advantages of the Group is the ability to leverage on CCHG's advantages for continuous expansion of the land resource exploitation business in the domestic market of the PRC. The prospect of a faster merger of some central enterprises into CCHG will further expand the basis of resources available for selection by the Group substantially.

The Board is confident of the Group's this year and future development prospect.

## GEARING RATIO

As at 30 June 2008, the Group's gearing ratio calculated on the basis of total bank loan, loans from minority interests and other loans of approximately HK\$235 million and total assets of approximately HK\$1,585 million, was 0.15 (31 December 2007: 0.01).

## LIQUIDITY AND CAPITAL RESOURCES

The Group's financial position remained healthy during the period under review.

At 30 June 2008, the Group had cash and bank balances amounting to HK\$308 million (31 December 2007: HK\$303 million), and current assets and current liabilities of HK\$1,313 million and HK\$818 million respectively (31 December 2007: HK\$359 million and HK\$97 million respectively). Out of the cash and bank balances of HK\$308 million at 30 June 2008, a sum of HK\$4.2 million was deposited in a segregated bank deposit account which sum is held on trust for those creditors of the Company who have not given their consents to the capital reduction of the Company as at the effective date of 21 June 2007.

At 30 June 2008, the Group's bank borrowings amounted to approximately HK\$226 million which was secured and repayable within one year with interest at commercial rate. The amounts due to minority interests of approximately HK\$6.2 million were unsecured, interest-free and repayable on demand. The other loans from third parties of approximately HK\$3.3 million were unsecured, repayable on demand and interest-free, except out of which a loan of approximately HK\$2.1 million carrying interest at fixed interest rate. The Group anticipates that it has adequate financial resources to meet its commitments and obligations for the coming year.

The Group will continue to employ conservative and sound financial planning, ensuring a solid financial position to support its future growth.

## FOREIGN EXCHANGE RISK MANAGEMENT

The business activities and operation of the Group are mainly in Hong Kong and Mainland China, with revenue and expenditure denominated in Hong Kong dollars and Renminbi. The Group considers that the appreciation in Renminbi does not impose a significant foreign exchange risk to the Group since its PRC operations mainly use their income in Renminbi to settle their expenses.

## HUMAN RESOURCES

At 30 June 2008, the Group employed a total of 63 employees, of which 13 were based in Hong Kong and 50 were based in Mainland China. Employee's remunerations are determined in accordance with nature of their duties, experiences and qualifications, and remain competitive under current market trend. Apart from the basic salary, discretionary bonus and other incentives are offered to employees to reward their performance and contributions. The Company has a share option scheme under which the Company may grant options to eligible employees to subscribe for shares in the Company.

## PLEDGE OF ASSET

As at 30 June 2008, the Group's land use right included in properties under development to approximately HK\$130 million was pledged as security for the Group's bank loan. As at 31 December 2007, there was no pledge of asset.

## CAPITAL COMMITMENT

As at 30 June 2008, there was capital commitment authorised but not contracted for of approximately HK\$283 million in respect of acquisition of certain pieces of land in the PRC, and other commitment contracted for but not provided for of approximately HK\$37.4 million in respect of the properties under development. The Group funds the commitment through internal resources of the Group and borrowings from a substantial shareholder of the Company which is on terms better to the Group and no security over the assets of the Group is granted in respect of such borrowings. As at 31 December 2007, there was no capital commitment.

## PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

As at 30 June 2008, the interests and short positions of each Director in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

<b>Name of Shareholder</b>	<b>Nature of interest</b>	<b>Number of Shares</b>	<b>Approximate percentage of interest</b>
Zhang Guotong	Beneficial owner	365	0.00001%
Gu Laiyun	Beneficial owner	3,867,707	0.145%
Xu Zhen	Beneficial owner	725,196	0.027%

Save as disclosed above, as at 30 June 2008, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARES OPTIONS SCHEME

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 24 June 2003, a share option scheme was adopted by the Company. Details of movements in the Company's outstanding share options during the six months ended 30 June 2008 are set out below:

	Date of grant	Exercise period	Exercise price per share HK\$ (Note 2)	Number of share options					
				Outstanding at 1.1.2008 (Note 2)	Adjusted during the period	Granted during the period	Exercised during the period (Note 1)	Lapsed during the period	Outstanding at 30.6.2008
<b>Directors</b>									
Gu Laiyun	28.9.2004	29.9.2005 to 28.9.2008	0.2027	2,417,317	—	—	(2,417,317)	—	—
Xu Zhen	8.3.2004	9.3.2005 to 8.3.2008	0.3012	362,598	—	—	(362,598)	—	—
		9.3.2006 to 8.3.2009	0.3012	362,598	—	—	(362,598)	—	—
				<u>3,142,513</u>	<u>—</u>	<u>—</u>	<u>(3,142,513)</u>	<u>—</u>	<u>—</u>
<b>Employees</b>									
In aggregate	8.3.2004	9.3.2005 to 8.3.2008	0.3012	362,598	—	—	(362,598)	—	—
		9.3.2006 to 8.3.2009	0.3012	487,794	—	—	(362,598)	—	125,196
	28.9.2004	29.9.2005 to 28.9.2008	0.2027	3,251,951	—	—	(600,000)	—	2,651,951
				<u>4,102,343</u>	<u>—</u>	<u>—</u>	<u>(1,325,196)</u>	<u>—</u>	<u>2,777,147</u>
Total				<u>7,244,856</u>	<u>—</u>	<u>—</u>	<u>(4,467,709)</u>	<u>—</u>	<u>2,777,147</u>

### Notes

- The weighted average closing price immediately before the dates on which the options were exercised was HKD1.46.
- The Rights Issue of the Company was completed on 12 April 2007. The exercise price and number of shares that can be subscribed for under the Scheme are already be adjusted upon the completion of the Rights Issue.
- Vesting periods
  - 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.
  - 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.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, 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	beneficial owner	791,814,913	29.58%
China Chengtong Hong Kong Company Limited	controlled corporation (Note 1)	791,814,913	29.58%
China Chengtong Holdings Group Limited	controlled corporation (Note 1)	791,814,913	29.58%

Note 1: 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 Group Limited.

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 June 2008.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry to each of the directors of the Company, they confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 30 June 2008.

## CORPORATE GOVERNANCE

The Board of Directors ("the Board") appreciates that the good corporate governance is vital to the healthy and sustainable development of the Group. The directors consider that the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2008, save as disclosed below in this paragraph:

### Code Provision A.2.1

Managing Director of the Group is responsible for the day-to-day management and operations, and focuses on implementing objectives and strategies. The role of Managing Directors is similar to the role of Chief Executive Officer (“CEO”) as defined in the Appendix 14 of the Listing Rules. Code Provision A.2.1 stipulated that the roles of Chairman and CEO should be separate and should not be performed by the same individual. During the period from 1 January to 10 April 2008, the positions of Chairman and Managing Director were held by Mr. Ma Zhengwu (“Mr. Ma”) and Mr. Zhang Guotong (“Mr. Zhang”) respectively. Their responsibilities are clearly defined and set out in writing.

Since Mr. Ma resigned from the position of Chairman in this April, Mr. Zhang, the Managing Director was elected to take the position as Chairman of the Board also. Given the Group’s current stage of development and scope of business, the Board considers that vesting the roles of Chairman and Managing Director in the same person facilitates the execution of the Group’s business strategies and maximizes effectiveness of its operation. However, to attain high standard of corporate governance, the Board will review the effectiveness of this arrangement from time to time and it will consider the appropriate move to take should suitable circumstance arise.

### Code provision A.4.1

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

## REVIEW OF ACCOUNTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The Audit Committee has reviewed the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2008 in conjunction with auditors of the Company.



**DISCLOSURE PURSUANT TO THE LISTING RULES**

As at 30 June 2008, the aggregate amount of advances made by the Group to its associate was approximately HK\$129,890,000.

The unaudited combined balance sheet of the Group's 32% owned associate, Goodwill (Overseas) Limited as at 30 June 2008 disclosed in accordance with 13.22 of Chapter 13 of the Listing Rule is as follows:

	<i>HK\$'000</i>
Non-current assets	<u>399,151</u>
Current assets	23
Current liabilities	<u>(582)</u>
Net current liabilities	(559)
Non-current liabilities	
Shareholders' loans	<u>(402,005)</u>
Net liabilities	<u><u>(3,413)</u></u>

By Order of the Board

**China Chengtong Development Group Limited**

**Zhang Guotong**

*Chairman and Managing Director*

Hong Kong, 8 September 2008