上海聯合水泥股份有限公司
Shanghai Allied Cement Limited

(Stock Code : 1060)

Annual Report 2007

CONTENTS

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Qing Hai
(President and Chief Executive Officer)
Dato' Wong Peng Chong *(Vice-President)*
Mr. Kong Muk Yin

Non-Executive Director

Ms. Chong Sok Un

Independent Non-Executive Directors

Mr. Chen Ching
Mr. Jin Hui Zhi
Mr. Li Chak Hung

EXECUTIVE COMMITTEE

Mr. Ng Qing Hai *(Chairman)*
Dato' Wong Peng Chong
Mr. Kong Muk Yin

REMUNERATION COMMITTEE

Mr. Chen Ching *(Chairman)*
Mr. Jin Hui Zhi
Mr. Li Chak Hung

AUDIT COMMITTEE

Mr. Li Chak Hung *(Chairman)*
Mr. Chen Ching
Mr. Jin Hui Zhi

COMPANY SECRETARY

Ms. Fung Ching Man, Ada

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wanchai
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Web-site	:	http://www.sacl.com.hk

SOLICITORS

P.C. Woo & Co.

AUDITOR

Deloitte Touche Tohmatsu

BANKERS

Hong Kong

CITIC Ka Wah Bank Limited
DBS Bank (Hong Kong) Ltd
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

The People's Republic of China

Agricultural Bank of China
Bank of China
Bank of Communications
China CITIC Bank
China Construction Bank Corporation
China Merchants Bank
China Minsheng Banking Corp., Ltd.
Guangdong Development Bank
Industrial and Commercial Bank of China
Shenzhen Development Bank Co., Ltd.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

SINGAPORE SHARE TRANSFER AGENT

Boardroom Corporate & Advisory Services Pte. Ltd.
3 Church Street
#08-01 Samsung Hub
Singapore 049483

STOCK CODE

Stock Code on The Stock Exchange of Hong Kong Limited: 1060

Stock Code on Singapore Exchange Securities Trading Limited: ShanghaiAC 2k HK$

OTHER CORPORATE INFORMATION

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PRESIDENT'S STATEMENT

On behalf of the board of directors (the "Board"), I am pleased to present to all shareholders the results of Shanghai Allied Cement Limited (the "Company", together with its subsidiaries, the "Group") for the year ended 31st December, 2007.

FINANCIAL RESULTS

For the year ended 31st December, 2007, although turnover increased by 12.8% to HK$434,300,000 (2006: HK$384,931,000) the Group recorded a net loss attributable to shareholders of HK$21,658,000, compared to a profit of HK$387,000 in the previous year.

Loss per share (basic) for the year was 2.97 HK cents (2006: Earnings per share (basic): 0.05 HK cent) and the net asset value per share was HK$0.40 (2006: HK$0.41).

DIVIDEND

The directors of the Company (the "Directors") do not recommend the payment of a dividend for the year ended 31st December, 2007 (2006: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Group is principally engaged in the manufacture and sales of cement and clinker, and slag powder. Its principal market is mainland China.

Cement and Clinker Business

For the year ended 31st December, 2007, turnover of the Group's cement and clinker business increased by 14.4% to HK$420,683,000 (2006: HK$367,691,000) and profit decreased by 29.3% to HK$23,185,000 (2006: HK$32,790,000). During the year, the aggregate sales volume of cement and clinker increased by 11.6% to 2,439,000 tonnes (2006: 2,186,000 tonnes).

1. ***Shanghai Allied Cement Co., Ltd. ("Shanghai SAC")***

   For 2007, Shanghai SAC achieved a turnover and sales of HK$255,737,000 (2006: HK$220,653,000) and 995,000 tonnes (2006: 956,000 tonnes) respectively, representing increases of 15.9% and 4.1% as compared with the previous year. Segment profit of HK$13,294,000 (2006: HK$24,616,000).

REVIEW OF OPERATIONS *(Continued)*

Cement and Clinker Business *(Continued)*

1. Shanghai Allied Cement Co., Ltd. ("Shanghai SAC") *(Continued)*

During the year under review, Shanghai SAC enhanced its competitiveness by undertaking an overhaul of the cooling facilities, U-tube decomposition furnace, ventilation system and other core machinery of its factory. The logistic system was also improved for operational efficiency. In addition, Shanghai SAC committed financial resources to urban wastage recycling in cement production. These measures have shown promising results and patent rights have been obtained for some of the technologies employed. As a "clean and green" manufacturing enterprise, Shanghai SAC has successfully gained the ISO 14000 Environmental Certification.

2. Shandong Shanghai Allied Cement Co., Ltd. ("Shandong SAC")

Shandong SAC recorded a turnover of HK$20,456,000 (2006: HK$60,197,000) and sales of 351,000 tonnes (2006: 368,000 tonnes) during the year. Segment loss amounted to HK$10,108,000 (2006 profit: HK$3,709,000) mainly due to the significant increase in the price of coal. Shandong SAC ceased to produce clinker at the end of the year and replaced raw material grinding with cement grinding to improve performance and introduced more efficient production methods to reduce costs and enhance quality.

3. Shandong Allied Wangchao Cement Limited ("Allied Wangchao")

During the year, Allied Wangchao achieved a turnover of HK$144,490,000 (2006: HK$86,841,000) and sales of 1,093,000 tonnes (2006: 862,000 tonnes), representing increases of 66.4% and 26.8% over the previous year. Segment profit increased by 347.9% to HK$19,999,000 (2006: HK$4,465,000).

Allied Wangchao has become the most important profit centre of the Group. It has commenced using waste recycling technology in cement production and is in the process of applying for preferential treatment under the State's policies.

REVIEW OF OPERATIONS *(Continued)*

Slag Powder Business

During the year under review, the turnover and sale of fine grinded slag powder of Beijing Shanglian Shoufeng Construction Materials Limited amounted to HK$13,617,000 (2006: HK$17,240,000) and 108,000 tonnes (2006: 128,000 tonnes). Segment loss amounted to HK$1,453,000 (2006 profit: HK$3,303,000) due to the drop in demand in the final phase of construction activities for the Beijing Olympic Games.

Conditional Acquisition of Redstone

In September 2007, the Group entered into a conditional sale and purchase agreement ("Conditional Acquisition") to acquire the entire issued share capital of Redstone Gold Limited ("Redstone"), a company engaged in the business of gold mining in Yunnan Province, China, for an aggregate consideration of HK$1 billion to be partially settled by the issue of 530,000,000 new shares of the Company and payment of cash of HK$470 million. A conditional placing agreement was also entered into to place 600,000,000 new shares of the Company on a fully underwritten basis. Subsequently, a refundable deposit of HK$150 million was paid and a loan of HK$50 million was made to Redstone, secured by share mortgages over 90% of the issued share capital of Redstone and personal guarantee given by the beneficial owner of such 90% issued share capital of Redstone. The refundable deposit and loan to Redstone are all financed by other borrowings. The Group is in the process of carrying out its due diligence exercise on Redstone and the circular containing, inter alia, a notice to convene a special general meeting to approve the acquisition, is expected to be despatched to shareholders by 30th June, 2008.

The Group understands from the vendors that Redstone beneficially owns 85% interest in two gold mines with mining licences and four gold mines with gold exploration permits in Yunnan Province, China, and the vendor has warranted that the six gold mines mentioned above will together maintain its JORC Gold Resources of not less than 50 tonnes (metric) of contained gold metal in total at the completion of the acquisition.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations and loans from principal bankers and financial institutions. As at 31st December, 2007, the Group maintained cash reserves of approximately HK$67,660,000 (2006: HK$67,000,000) including pledged short-term bank deposits of approximately HK$26,391,000 (2006: HK$24,808,000). At 31st December, 2007, the equity attributable to equity holders of the Company amounted to HK$295,085,000 (2006: HK$300,647,000). Borrowings amounted to HK$462,310,000 (2006: HK$222,227,000). The net current liabilities and high gearing ratio was the result of additional other borrowings obtained for financing payment of the refundable deposit and loan to Redstone for the Conditional Acquisition.

Foreign Exchange Fluctuation

The Group's operations are mainly located in mainland China and its transactions, related working capital and borrowings are primarily denominated in Renminbi and Hong Kong Dollars. The Group monitors its foreign exchange exposure and will consider hedging significant currency exposure should the need arise.

Charges on Assets

As of 31st December 2007, bank deposits of HK$26,391,000 (2006: HK$24,808,000) were pledged to banks and financial institutions as collateral mainly to secure short term banking facilities in respect of bills payable to suppliers.

EMPLOYEES AND REMUNERATION POLICIES

As of 31st December, 2007, the Group, including its subsidiaries but excluding its associates, employed 634 (2006: 668) employees. The remuneration policies of the Group are based on the prevailing market levels and the performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

RISK MANAGEMENT

During the year, the Group constantly reviewed the risk and credit control systems of its profit centres to improve the overall control system and mitigate the credit risk.

PROSPECTS

Cement consumption in Shanghai reached its peak in 2006 and 2007 saw decreasing demand for cement in the industry. The austerity measures taken in Shanghai were much stricter than in other provinces and have adversely affected Shanghai's economic development. The increase in the price of coal has led to an increase in the unit cost of production and without a corresponding increase in the cement price, the profit margin of the cement manufacturers will continue to be affected. Nevertheless, it is hoped that the reconstruction activities after the catastrophe resulting from the recent severe weather conditions and the anticipated demand from events such as Shanghai World Exposition, Beijing-Shanghai Railway and Shanghai Hongqiao Transportation Hub will lead to greater cement consumption and help to mitigate the situation.

Being one of the cement companies selected by the Ministry of Land and Resources and the People's Bank of China to be under the auspices of the State, the Group has devoted its resources to enhancing internal control and technology development to improve its competitiveness.

Global demand for gold has increased substantially since early 2006. It is expected that the gold market in China, the third largest gold consumer in the world, will follow such a trend. Further, the gold market in China has been gradually deregulated in recent years and the Chinese Government has established a series of policies to promote the development of the gold industry to encourage gold mining enterprises to use advanced technologies in mining and production by granting them preferential treatment on taxation. These developments have significantly improved the business environment of the gold mining industry in China. The Group believes that the acquisition of Redstone presents a good opportunity to develop our investment and business in the natural resources sector, and enable the Group to increase earnings and enhance value for shareholders by diversifying into the potentially profitable gold mining business in China.

APPRECIATION

Mr. Li Chi Kong and Ms. Iris Wong Ping resigned as Directors of the Company in July 2007. On behalf of the Board, I wish to express my appreciation and thank them for their invaluable contribution to the Group.

I would like to take this opportunity to welcome Ms. Chong Sok Un, Dato' Wong Peng Chong and Mr. Kong Muk Yin to the Board. With their experience and expertise, they will provide valuable guidance to the Board in its deliberations.

Lastly, I would like to extend my sincere thanks to our shareholders for their continued support, my fellow Directors for their contribution and our staff for their diligence.

Ng Qing Hai
President

Hong Kong, 7th April, 2008

Executive Directors

Mr. Ng Qing Hai, aged 51, appointed on 15th May, 2001, is the President and Chief Executive Officer of the Company. Mr. Ng is also the deputy managing director of Tian An China Investments Company Limited. He graduated from the Accounting Department of Shanghai Institute of Building Materials in 1983. Mr. Ng became a member of the Association of Registered Accountants of the PRC in 1994. He was admitted as Management Consultant by Group ESSEC of France in 1988, and also became the vice chairman of China Building Materials Enterprises Management Association in 2004 and a fellow of Asian Knowledge Management Association in 2006. Mr. Ng has extensive experience in managing enterprises. He is the brother of Mr. Huang Wu Hu (a member of the senior management of the Company).

Dato' Wong Peng Chong, aged 64, appointed on 4th July, 2007, is the Vice President of the Company. Dato' Wong is also the executive director of COL Capital Limited ("COL"). Upon his graduation from the University of Malaya in 1967 with a Bachelor of Arts (Honours), he joined the Malaysian Foreign Service and served with several Malaysian diplomatic missions overseas in various capacities. Dato' Wong joined the private sector in 1985 and has served in various senior management positions, including executive directorship in public listed companies, in Hong Kong and Malaysia.

Mr. Kong Muk Yin, aged 42, appointed on 4th July, 2007, is an Executive Director of the Company. Mr. Kong is also the executive director of COL. He was graduated from City University of Hong Kong with a bachelor's degree in business studies. He is a fellow member of The Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst and he has extensive experience in corporate finance, financial management, accounting and auditing.

Non-Executive Director

Ms. Chong Sok Un, aged 53, appointed on 25th June, 2007, is a Non-Executive Director of the Company. Ms. Chong is also the chairman of COL and executive director of APAC Resources Limited. She has been chairman of Long Island Golf & Country Club, Dongguan, China since September 1998. She is now the Vice-Chairman of the 29th Term Board of Directors of Yan Oi Tong. During 1992 to 2000, she was appointed as director and chief executive officer of Shenyin Wanguo (H.K.) Limited. Ms. Chong holds a master degree in business administration.

Independent Non-Executive Directors

Mr. Chen Ching, aged 59, appointed on 27th September, 2004, is an Independent Non-Executive Director of the Company. Mr. Chen is currently a director of China Ocean Management Limited. He was a director of Genesis Energy Holdings Limited from 1999 to 2001. He served as a senior executive in various companies within the food sector and metal sector in the PRC. Mr. Chen has over twenty-three years of experience in financial management.

Mr. Jin Hui Zhi, aged 48, appointed on 14th December, 2004, is an Independent Non-Executive Director of the Company. Mr. Jin is currently the chairman of Shanghai Horizon Investment Co. Ltd. ("Shanghai Horizon") and the deputy president of The Youth Entrepreneur Association of Shanghai. Shanghai Horizon is a company principally engaged in the investment of three major industries, namely bio-engineering, commercial real estate and medical. During the period from 1996 to 2000, he was the general manager and chairman of Shanghai Huaihai Commerce Group. Mr. Jin was formerly chief member of Youth Work Ministry, chief member and deputy director of Research Department, member of Standing Committee and minister of Youth Work Ministry of China Communist Youth League Shanghai Committee. He has extensive experience in the business market. Mr. Jin holds a MBA degree.

Mr. Li Chak Hung, aged 43, appointed on 27th September, 2004, is an Independent Non-Executive Director of the Company. He holds a Bachelor's Degree of Business Administration and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants in the United Kingdom. He has over eighteen years of experience in auditing, accounting and financial management. Mr. Li is also an independent non-executive director of Quality HealthCare Asia Limited and Smart Union Group (Holdings) Limited. He was an independent non-executive director of Xian Yuen Titanium Resources Holdings Limited (formerly known as Aurora Global Investment Holdings Limited) from September 2005 to April 2007 and The Hong Kong Building and Loan Agency Limited from October 2005 to July 2007.

Senior Management

Mr. Yu Zhong, aged 46, joined Shanghai Allied Cement Co., Ltd. in December 1993 when the company was first established and is now a Director and the Vice President of Shanghai Allied Cement Co., Ltd., Sales Director of Shanghai Allied Cement Holdings Limited and a Director of Shandong Allied Wangchao Cement Limited. He served as the Executive Deputy General Manager of Shandong Shanghai Allied Cement Co., Ltd. from June 2001 to October 2003. Mr. Yu graduated from Shanghai Institute of Building Materials majoring in cement craftsmanship and Shanghai Light Industry Workers College majoring in Enterprise Management. He is a qualified Economist. Mr. Yu has 26 years of experience in the cement industry and has extensive experience in operation management, marketing and production management.

Senior Management *(Continued)*

Mr. Lu Yan, aged 48, joined Shanghai Allied Cement Co., Ltd. in August 1994, is now a Director and Assistant to the General Manager of Shanghai Allied Cement Co., Ltd. and Human Resources Manager of Shanghai Allied Cement Co., Ltd. Mr. Lu graduated from the Economics Management Department of Shanghai TV University and is an Assistant Economist. Mr. Lu has worked in the human resources field for over 20 years and has extensive experience in enterprise management and investment development.

Mr. Huang Wu Hu, aged 55, joined the Group in June 2001 and is the General Manager of Shandong Shanghai Allied Cement Co., Ltd. and a director and the General Manager of Shandong Allied Wangchao Cement Limited. Mr. Huang is a registered planner in the PRC and is a qualified economist. He was awarded the Certificate of Qualified Senior Manager. He is currently a member of the Taierzhuang District CPPCC Standing Committee as well as Zaozhuang City CPPCC Standing Committee. Mr. Huang has extensive experience in operation management. He is an elder brother of Mr. Ng Qing Hai (the President and Chief Executive Officer of the Company).

Mr. Tsai Chuan Ku, aged 58, is the Executive Deputy General Manager of Shandong Allied Wangchao Cement Limited and the Production, Manufacture and Technical Director of Shanghai Allied Cement Holdings Limited. Mr. Tsai joined Shanghai Allied Cement Co., Ltd. in August 1995. Prior to joining the Group, he worked for Chien Tai Cement Co., Ltd. in Taiwan for over twenty years. Mr. Tsai has over thirty-two years of experience in the cement industry. He graduated from the Mechanical Engineering Department of Chung Yuan University in Taiwan.

Mr. Li Chao, aged 44, joined the Group in February 2002, is now the Vice Financial Controller of Shanghai Allied Cement Holdings Limited and a Director and Financial Controller of Shanghai Allied Cement Co., Ltd. Mr. Li has a part-time post-graduate and a senior accountant qualified by the China government. He has served as a financial controller in large enterprises with over 24 years of experience in accounting and financial management.

Ms. Fung Ching Man, Ada, aged 41, joined the Company in July 2007 and is the company secretary of the Company. She is an associate member of The Institute of Chartered Secretaries and Administrators and has over 15 years of working experience in the company secretarial profession.

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The board of directors of the Company (the "Board") believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the light of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which came into effect on 1st January, 2005, the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31st December, 2007, except for certain deviations as specified with considered reasons for such deviations as explained below. The Board will review the current practices at least annually and make appropriate changes if considered necessary.

THE BOARD

The Board currently comprises seven Directors in total, with three Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors ("INEDs"). The composition of the Board during the year and up to the date of this report is set out as follows:

Executive Directors:

Mr. Ng Qing Hai	*(President and Chief Executive Officer)*
Dato' Wong Peng Chong	*(Vice-President) (appointed on 4th July, 2007)*
Mr. Kong Muk Yin	*(appointed on 4th July, 2007)*
Mr. Li Chi Kong	*(resigned on 4th July, 2007)*
Ms. Iris Wong Ping	*(resigned on 4th July, 2007)*

Non-Executive Director:

Ms. Chong Sok Un	*(appointed on 25th June, 2007)*

INEDs:

Mr. Chen Ching
Mr. Jin Hui Zhi
Mr. Li Chak Hung

THE BOARD *(Continued)*

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 10 to 11.

During the year, the Non-Executive Directors (a majority of whom are independent) provided the Group with a wide range of expertise and experience. Their active participation in the Board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

Throughout the year, the Company had three INEDs representing more than one-third of the Board. At least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, four Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

		Number of Board meetings attended/eligible to attend
Executive Directors:		
Ng Qing Hai	*(President and Chief Executive Officer)*	4/4
Dato' Wong Peng Chong	*(Vice-President) (appointed on 4 July, 2007)*	2/2
Mr. Kong Muk Yin	*(appointed on 4 July, 2007)*	2/2
Mr. Li Chi Kong	*(resigned on 4 July, 2007)*	2/2
Ms. Iris Wong Ping	*(resigned on 4 July, 2007)*	2/2
Non-Executive Director:		
Ms. Chong Sok Un	*(appointed on 25 June, 2007)*	2/2
INEDs:		
Mr. Chen Ching		3/4
Mr. Jin Hui Zhi		4/4
Mr. Li Chak Hung		4/4

THE BOARD *(Continued)*

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters. The Board has delegated the day-to-day responsibility to the executive management under the instruction/ supervision of the Executive Committee which has its specific written terms of reference. The respective functions of the Board and management of the Company have been formalised and set out in writing which was approved by the Board in June 2005. The Board will review the same once a year.

Board meetings each year are scheduled to be held at approximately quarterly intervals and as required by business needs. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting (and so far as practicable for such other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before the same will be tabled at the following Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

According to current Board practice, any transaction which involves a conflict of interests for a substantial shareholder or a Director and which is considered by the Board to be material, will be dealt with by the Board at a duly convened Board meeting. The Bye-laws of the Company also stipulate that a Director should abstain from voting and not be counted in the quorum at meetings for approving transactions in which such Director or any of his associates have a materially interest therein.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be continuously updated on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, a written procedure was established in June 2005 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company does not at present have a Chairman. Mr. Ng Qing Hai, being the President and Chief Executive Officer ("CEO") of the Company, is responsible for running the business of the Group and implementation of the Group's strategy in achieving the overall commercial goals as well as part of the duties of Chairman which constitute a deviation from the code provision A.2.1 of the CG Code that the roles of chairman and CEO should be separate and should not be performed by the same individual.

To comply with this code provision, the Company is considering the appointment of a Chairman of the Board if a candidate with suitable leadership, knowledge, skills and experience can be identified within or outside the Group. The division of responsibilities between the Chairman and CEO has been set out in writing and approved by the Board in June 2005.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In June 2005, the Board established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Executive Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend the proposed candidate to the Board for approval of an appointment.

New Directors, on appointment, will be given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. The senior management will subsequently conduct such briefing as is necessary to give the new Directors more detailed information on the Group's businesses and activities.

Each of the Independent Non-Executive Directors of the Company was appointed for a specific term but subject to the relevant provisions of the Bye-laws of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. Such term for each of INED has been renewed for further two years to 31st December, 2008.

The code provision A.4.2 of the CG Code requires all Directors, including these appointed for a specific term, to be subject to retirement by rotation at least once every three years. The Company has fully complied with Code provision A.4.2 of the Code on CGP.

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee and an Executive Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 15 in the section "The Board" above, have been adopted for the committee meetings so far as practicable.

Remuneration Committee

The Remuneration Committee has been established since June 2005 and currently consists of three members, including Messrs. Chen Ching (Chairman), Jin Hui Zhi and Li Chak Hung, all of whom are INEDs. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

(i) to review and recommend to the Board the remuneration policy and packages of the Directors and, where appropriate, to consult the Chairman (if any) and/or CEO about the committee's proposals relating to the remuneration of other Executive Directors;

(ii) to review and recommend performance-based remuneration by reference to corporate goals and objectives approved by the Board from time to time;

(iii) to review and recommend the compensation payable to Executive Directors relating to any loss or termination of their office or appointment;

(iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(v) to ensure that no Director is involved in deciding his own remuneration.

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The terms of reference of the Remuneration Committee of the Company were adopted in June 2005 to comply with the code provision B.1.3 of the CG Code, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors;

(ii) the Remuneration Committee members only consist of INEDs who may not be industry skilled and come from differing professions and backgrounds and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;

(iii) the Executive Directors must be in a position to supervise and control senior management and thus must be able to control their compensation; and

(iv) there is no reason for Executive Directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee has been uploaded to the Company's website to ensure full compliance with the code provision B.1.4 of the CG Code.

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2007 and the attendance of each member is set out as follows:

Committee member	Number of Committee meeting attended/eligible to attend
Mr. Chen Ching *(Chairman)*	1/1
Mr. Jin Hui Zhi	1/1
Mr. Li Chak Hung	1/1

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

Apart from the Committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2007. In 2007 and up to date of this report, the Remuneration Committee had performed the work summarised as below:

(i) reviewed and discussed the existing remuneration packages of all the Executive Directors and Non-Executive Directors (including the INEDs) for the year ended 31st December, 2006, including the existing policy and structure for the remuneration of Directors; and

(ii) reviewed and recommended for the Board's approval regarding the proposed service fee to the INEDs acting as chairmen/members of the Audit and Remuneration Committees of the Company for the period from 1st January, 2007 to 31st December, 2007.

Each Director will be entitled to a Director's fee which is to be proposed for the shareholders' approval at the AGM of the Company each year. Further remuneration payable to Directors (including any service fees to the INEDs) for their additional responsibilities and services will depend on their respective contractual terms under their employment or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the consolidated financial statements. Details of the remuneration policy of the Group are also set out in the "Employees and Remuneration Policies" section in the President's Statement on page 7.

The Company's share option scheme was adopted pursuant to a resolution passed by the shareholders of the Company on 23rd May, 2002. No share option was granted under the share option scheme of the Company during the year ended 31st December, 2007, nor there any share option outstanding as at 31st December, 2007.

BOARD COMMITTEES *(Continued)*

Audit Committee

The Audit Committee has been established since August 2001 and currently consists of three INEDs. To retain independence and objectivity, the Audit Committee has been chaired by an INED (with appropriate professional qualifications or accounting or related financial management expertise). The current members of the Audit Committee are Messrs. Li Chak Hung (Chairman), Chen Ching and Jin Hui Zhi. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit Committee are:

(i) to consider and recommend to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of those auditors;

(ii) to consider and discuss with the external auditor the nature and scope of each year's audit;

(iii) to review and monitor the external auditor's independence and objectivity;

(iv) to review the interim and annual consolidated financial statements before submission to the Board;

(v) to discuss any problems and reservation arising from the interim review and final audit, and any matters the external auditor may wish to discuss;

(vi) to review the external auditor's management letters and management's response;

(vii) to review the Group's financial controls, internal control and risk management systems; and

(viii) to consider any findings of major investigations of internal control matters as delegated by the Board and management's response.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

The terms of reference of the Audit Committee of the Company were revised in June 2005 to comply with the code provision C.3.3 of the CG Code, but with the deviations from the code provision of the audit committee's responsibility to:

(i) implement policy on the engagement of the external auditors to supply non-audit services;

(ii) ensure the management has discharged its duty to have an effective internal control system; and

(iii) ensure coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the listed company.

The Board considers that the Audit Committee of the Company should recommend (as opposed to implement) the policy on the engagement of the external auditor to supply non-audit services for the following reasons:

(i) it is proper, and appropriate for the Board and its committees to develop policy and make appropriate recommendations;

(ii) the proper and appropriate mechanism for implementation of such policy and recommendations is through the Executive Directors and management; and

(iii) INEDs are not in an effective position to implement policy and follow up the same on a day-to-day basis.

Further, the Board considers that the Audit Committee of the Company only possesses the effective ability to scrutinise (as opposed to ensure) whether management has discharged its duty to have an effective internal control system. The Committee is not equipped to ensure that the same is in place as this would involve day-to-day supervision and the employment of permanent experts. The Audit Committee is not in a position either to ensure coordination between the internal and external auditors but it can promote the same. Similarly, the Committee cannot ensure that the internal audit function is adequately resourced but it can check whether it is adequately resourced.

The revised terms of reference of the Audit Committee has been uploaded to the Company's website to ensure full compliance with the code provision C.3.4 of the CG Code.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

The Audit Committee shall meet at least twice a year. Three committee meetings were held in 2007 and the attendance of each member is set out as follows:

Committee member	Number of Committee meetings attended/eligible to attend
Mr. Li Chak Hung *(Chairman)*	3/3
Mr. Chen Ching	3/3
Mr. Jin Hui Zhi	1/3

Apart from the Committee meetings, the Audit Committee also dealt with matters by way of circulation during 2007. In 2007 and up to the date of this report, the Audit Committee had performed the work summarised as below:

(i) reviewed and approved the audit scope and fees proposed by the external auditor in respect of the final audit of the Group for the year ended 31st December, 2006 (the "2006 Final Audit") and for the interim results review for the six months ended 30th June, 2007 (the "2007 Interim Review");

(ii) reviewed the external auditor's report of findings in relation to the 2006 Final Audit and the auditor's report of the connected transactions for the year ended 31st December, 2006 where waivers had been granted by the Stock Exchange;

(iii) reviewed the external auditor's independent review report in relation to the 2007 Interim Review;

(iv) reviewed the financial reports for the year ended 31st December, 2006 and for the six months ended 30th June, 2007 and recommended the same to the Board for approval;

BOARD COMMITTEES *(Continued)*

Executive Committee

The Executive Committee has been established since December 2004 and currently consists of three Executive Directors, being Mr. Ng Qing Hai (Chairman), Dato' Wong Peng Chong and Mr. Kong Muk Yin. The Executive Committee is vested with all the general powers of management and control of the activities of the Group as are vested in the Board, save for those matters which are reserved for the Board's decision and approval pursuant to the written terms of reference of the Executive Committee.

The Executive Committee meets periodically to discuss the operating affairs of the Group and may also deal with matters by way of circulation. It is mainly responsible for undertaking and supervising the day-to-day management and is empowered:

(i) to formulate and implement policies for the business activities, internal control and administration of the Group; and

(ii) to plan and decide on strategies to be adopted for the business activities of the Group within the overall strategy of the Group as determined by the Board.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code.

To comply with the code provisions A.5.4 of the CG Code, the Company has also adopted in June 2005 the Model Code, to regulate dealings in the securities of the Company by certain employees of the Company or its subsidiaries who are considered to be likely in possession of unpublished price sensitive information in relation to the Company or its securities.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from the finance department, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the year ended 31st December, 2007, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance were complied with. Appropriate accounting policies have also been applied consistently.

The reporting responsibilities of the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, are set out in the Independent Auditor's Report on pages 36 to 37.

Internal Control

The purpose of the internal control systems is to keep the Group on course towards achieving its performance and profitability goals and its overall mission. The immediate aim of internal control is to help to provide a reasonable level of assurance that the Group will meet the agreed objectives and goals. It has a key role in the management of risks that are significant to the fulfilment of business objectives. It is the Board's responsibility to review the effectiveness of the Group's internal control systems and ensure that the controls are sound and effective to safeguard the shareholders' investment and the Group's assets at all times.

ACCOUNTABILITY AND AUDIT *(Continued)*

External Auditors' Remuneration

During the year, the remuneration paid/payable to the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered for the Group	**Fee paid/payable** HK$'000
Audit services	1,546
Non-audit services (including review of interim results, internal control, connected party transaction and preliminary announcement of results)	122
Total:	1,668

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and personally chairs the meeting to answer any questions from the shareholders. The chairmen of the Audit Committee and Remuneration Committee or in their absence, another member of the respective committees, are also available to answer questions at the AGM. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received in respect of each resolution.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders to promote and improve our transparency are also welcome.

On behalf of the Board
Ng Qing Hai
Chief Executive Officer

Hong Kong, 7th April, 2008

The directors of the Company (the "Directors") present their report and the audited consolidated financial statements for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries, jointly controlled entity and associate as at 31st December, 2007 are set out in notes 38, 19 and 20 to the consolidated financial statements respectively.

SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATE

Details of the Company's principal subsidiaries, jointly controlled entity and associate as at 31st December, 2007 are set out in notes 38, 19 and 20 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 38.

The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2007.

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

Details of movements in the property, plant and equipment and prepaid lease payments of the Group during the year are set out in notes 15 and 16 to the consolidated financial statements respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital and share options of the Company are set out in notes 28 and 29 to the consolidated financial statements respectively.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 41 and in note 37(b) to the consolidated financial statements respectively.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 104.

BORROWINGS

Bank loans and other loans repayable within one year or on demand are classified under current liabilities. Details of non-current borrowings are set out in note 27 to the consolidated financial statements.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Ng Qing Hai	*(President and Chief Executive Officer)*
Dato' Wong Peng Chong	*(Vice-President) (appointed on 4th July, 2007)*
Mr. Kong Muk Yin	*(appointed on 4th July, 2007)*
Mr. Li Chi Kong	*(resigned on 4th July, 2007)*
Ms. Iris Wong Ping	*(resigned on 4th July, 2007)*

Non-Executive Director:

Ms. Chong Sok Un	*(appointed on 25th June, 2007)*

DIRECTORS *(Continued)*

Independent Non-Executive Directors:

Mr. Chen Ching
Mr. Jin Hui Zhi
Mr. Li Chak Hung

In accordance with the bye-law 87(2) of the Company's Bye-laws. Mr. Chen Ching shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with the bye-law 86(2) of the Company's Bye-laws, Dato' Wong Peng Chong, Mr. Kong Muk Yin and Ms. Chong Sok Un, who have been appointed after the last Annual General Meeting and before the date of this report, shall hold office until the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors' biographical details are set out on pages 10 to 11.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at 31st December 2007, the interests and short positions of the Directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:–

Long position in the shares of the Company

	Number of ordinary shares of HK$0.25 each					Percentage to the issued share capital
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total	
Ms. Chong Sok Un ("Ms. Chong")	–	–	197,858,680 (Note)	–	197,858,680	27.13%

Note: As at 31st December 2007, COL Capital Limited ("COL") held 197,858,680 ordinary shares of the Company. Vigor Online Offshore Limited, a wholly-owned subsidiary of China Spirit Limited ("China Spirit") held 38.56% interest in COL. Ms. Chong maintains 100% beneficial interests in China Spirit. Accordingly, Ms. Chong is deemed to have corporate interests in 197,858,680 ordinary shares of the Company.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES *(Continued)*

Save as disclosed above, as at 31st December 2007, none of the directors, the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The Company's share option scheme was adopted pursuant to a resolution passed by the shareholders of the Company on 23rd May, 2002. No share option was granted under the share option scheme of the Company during the year ended 31st December, 2007, nor there any share option outstanding as at 31st December, 2007.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Share Options" above, at no time during the year was the Company, any of its holding companies, any of its subsidiaries or any of its fellow subsidiaries a party to any arrangements to enable the Directors or former Directors to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors, former Directors, chief executive or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, any of its holding companies, any of its subsidiaries or any of its fellow subsidiaries was a party and in which the Directors or former Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

No Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for approximately 29% and the largest customer accounted for approximately 11% of the Group's total sales for the year.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 45% and the largest supplier accounted for approximately 14% of the Group's total purchases for the year.

None of the Directors, their associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest customers and five largest suppliers.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31st December, 2007, the following persons had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Number of shares held	Notes	Percentage to the issued share capital
COL Capital Limited ("COL")	197,858,680	1	27.13%
Vigor Online Offshore Limited ("VOOL")	197,858,680	2	27.13%
China Spirit Limited ("CSL")	197,858,680	3	27.13%
Ms. Chong Sok Un ("Ms. Chong")	197,858,680	4	27.13%
Sun Hung Kai International Limited ("SHKI")	600,000,000	5	82.26%
Sun Hung Kai Securities Limited ("SHKS")	600,000,000	6	82.26%
Sun Hung Kai & Co. Limited ("SHK")	600,000,000	7	82.26%
Allied Properties (H.K.) Limited ("APL")	600,000,000	8	82.26%
Allied Group Limited ("AGL")	600,000,000	9	82.26%
Lee and Lee Trust ("LL Trust")	600,000,000	10	82.26%
Sunnysino Limited ("Sunnysino")	530,000,000	11	72.66%
Mr. Xu Guoliang ("Mr. Xu")	530,000,000	12	72.66%
Mr. Ng Siu Chun	47,614,000		6.53%

Notes:

1. The figure referred to the aggregate holding of 72,858,680 shares beneficially held by Honest Opportunity Limited ("HOL"), a direct wholly-owned subsidiary of Classic Fortune Limited ("CFL"), and 125,000,000 shares beneficially held by Taskwell Limited ("TL"), a direct wholly-owned subsidiary of Besford International Limited ("BIL"). CFL and BIL were direct wholly-owned subsidiaries of COL; COL was therefore deemed to have the same interest held by HOL and TL.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS *(Continued)*

2. VOOL owned approximately 38.56% interest in the issued share capital of COL and was therefore deemed to have the same interest held by COL.

3. CSL owned 100% interest in the issued share capital of VOOL and was therefore deemed to have the same interest held by VOOL.

4. Ms. Chong owned 100% interest in the issued share capital of CSL and was therefore deemed to have the same interest held by CSL.

5. SHKI entered into a Placing Agreement with the Company on 18th September, 2007 (the "Placing Agreement") pursuant to which the Company has agreed to place, through SHKI as the Placing Agent and on a fully underwritten basis, 600,000,000 new Shares to independent investors at a price of HK$1.00 per new Share. As at 31st December, 2007, the Placing Agreement is yet to be completed.

6. SHKS owned 100% interest in the issued share capital of SHKI and was therefore deemed to have the same interest held by SHKI.

7. SHK owned 100% interest in the issued share capital of SHKS and was therefore deemed to have the same interest held by SHKS.

8. Through AP Jade Limited and AP Emerald Limited, direct and indirect wholly-owned subsidiaries of APL respectively, APL owned approximately 64.76% interest in the issued share capital of SHK and was therefore deemed to have the same interest held by SHK.

9. AGL owned approximately 74.64% interest in the issued share capital of APL and was therefore deemed to have the same interest held by APL.

10. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of LL Trust, being a discretionary trust. They together owned approximately 42.58% interest in the issued share capital of AGL and were therefore deemed to have the same interest held by AGL.

11. A conditional sale and purchase agreement dated 26th July, 2007 ("Conditional Sale and Purchase Agreement") was entered into between Sino Able Investments Limited, a wholly-owned subsidiary of the Company (as buyer), Sunnysino and Orrita Group Limited (as vendors), Mr. Xu and the Company (as the guarantors) relating to the acquisition of 1,000 shares of US$1.00 each in the issued share capital of Redstone Gold Limited (as supplemented on 14th September, 2007) for an aggregate consideration of HK$1 billion to be partially settled by the issue of 530,000,000 new Shares to Sunnysino at a price of HK$1.00 each and a payment of cash of HK$470 million. As at 31st December, 2007 the Conditional Sale and Purchase Agreement is yet to be completed.

12. Mr. Xu owned 100% interest in the issued share capital of Sunnysino and was therefore deemed to have the same interest held by Sunnysino.

13. Completion of the Placing Agreement as mentioned in Note 5 and the Conditional Sale and Purchase Agreement as mentioned in Note 11 is conditional upon fulfillment of a number of conditions.

All the interests disclosed above represent long positions. As at 31st December, 2007, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

None of the Directors is interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31st December, 2007, the Company had the following continuing connected transactions, details of which are set out below:

1. Pursuant to the leasing agreement dated 16th December, 1995 entered into between Shanghai Allied Cement Co., Ltd. ("Shanghai SAC"), which became a subsidiary of the Company on 14th March, 2002 subsequent to the amendment of its joint venture contract and joint venture articles, and Shanghai Cement Factory ("SCF"), a substantial shareholder of Shanghai SAC, certain equipments and facilities were leased from SCF for the use of Shanghai SAC (the "Transaction"). The aggregate amount of the Transaction for the year ended 31st December, 2007 amounted to HK$6,631,000. The Company has been granted a waiver by the Stock Exchange from the strict compliance of the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of the Transaction.

   The Independent Non-Executive Directors have reviewed the Transaction for 2007 and confirmed that the Transaction was:

   (i) entered into in the ordinary and usual course of business of the Group;

   (ii) conducted on normal commercial terms;

   (iii) entered into in accordance with the terms of the leasing agreement governing the Transaction and was fair and reasonable and in the interests of the shareholders of the Company as a whole; and

   (iv) the aggregate annual amount of the Transaction in 2007 was within the relevant maximum amount as agreed by the Stock Exchange.

CONTINUING CONNECTED TRANSACTIONS *(Continued)*

2. Pursuant to the agreement dated 8th July, 2002 (the "Master Agreement") entered into between the Company and Tian An China Investments Company Limited ("Tian An"), the former ultimate holding company of the Company, the Company and Tian An agreed to have a reciprocal arrangement to procure their respective subsidiaries in the People's Republic of China (the "PRC") to provide guarantee (s) to secure the borrowings of other subsidiaries in the PRC (the "SAC Guarantees" and "Tian An Guarantees"). A guarantee fee of 1% per annum was agreed to be charged on the aggregate principal amount of borrowings of Tian An's subsidiaries secured by SAC Guarantees. Same rate of guarantee fee was also agreed to be charged by Tian An's subsidiaries for Tian An's Guarantees provided vice versa. The Company has been granted a waiver by the Stock Exchange from the strict compliance of the requirements of the Listing Rules in respect of the Master Agreement and the SAC Guarantees for a period of three financial years ended 31st December, 2004.

   The Master Agreement expired on 31st December, 2004. On 31st December, 2004, a supplemental agreement (the "Supplemental Agreement") was entered into between the Company and Tian An, pursuant to which the term of the Master Agreement was extended to 31st December, 2007 and to reduce the aggregate principal amount of borrowings of Tian An's subsidiaries to be covered by SAC Guarantees to RMB80,000,000. The Supplemental Agreement and the SAC Guarantees constituted discloseable and continuing connected transactions of the Company. The ordinary resolution to approve the transaction was approved by the shareholders of the Company on 7th February, 2005.

   Following the completion of the placing of the Company's ordinary shares which were beneficially owned by Tian An to independent investors on 29th June, 2007, Tian An ceased to be the Company's ultimate holding company and Tian An's subsidiaries ceased to be the Company's fellow subsidiaries.

   The Independent Non-Executive Directors have reviewed the Supplemental Agreement and the SAC Guarantees for 2007 and confirmed that the Supplemental Agreement and the SAC Guarantees were:

   (i) entered into in the ordinary and usual course of business of the Group;

   (ii) conducted on normal commercial terms;

   (iii) entered into in accordance with the Master Agreement as supplemented by the Supplemental Agreement governing the transactions and was fair and reasonable and in the interests of the shareholders of the Company as a whole; and

   (iv) the aggregate principal amount of borrowings of Tian An's subsidiaries covered by the SAC Guarantees at any time during the year ended 31st December, 2007 did not exceed RMB80,000,000, the limit as specified in the Supplemental Agreement.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2007.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 13 to 26.

PUBLIC FLOAT

As at the date of this report, the Company has maintained a sufficient public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of its Directors.

AUDITOR

The consolidated financial statements for the year ended 31st December, 2007 were audited by Messrs. Deloitte Touche Tohmatsu. A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Ng Qing Hai
Chief Executive Officer

Hong Kong, 7th April, 2008

Deloitte.
德勤

TO: THE SHAREHOLDERS OF SHANGHAI ALLIED CEMENT LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Shanghai Allied Cement Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 38 to 103, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
7th April, 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007

	Notes	**2007 HK$'000**	2006 HK$'000
Continuing operations:			
Turnover	8	**434,300**	384,931
Cost of sales		**(402,805)**	(339,572)
Gross profit		**31,495**	45,359
Other income		**33,037**	23,801
Distribution and selling expenses		**(7,834)**	(6,283)
Administrative expenses		**(38,423)**	(26,263)
Allowance for bad and doubtful debts		**(5,820)**	(5,583)
Bad and doubtful debts recovered		**2,218**	3,174
Gain on disposal of subsidiaries		**2,330**	8
Finance costs	9	**(33,598)**	(16,469)
(Loss) profit before taxation		**(16,595)**	17,744
Taxation credit (charge)	11	**1,400**	(7,207)
(Loss) profit from continuing operations		**(15,195)**	10,537
Discontinued operation:			
Loss for the year from discontinued operation	12	**–**	(3,343)
(Loss) profit for the year	13	**(15,195)**	7,194
Attributable to:			
Equity holders of the Company		**(21,658)**	387
Minority interests		**6,463**	6,807
		(15,195)	7,194
		HK cents	HK cents
(Loss) earnings per share	14		
From continuing and discontinued operations			
Basic		**(2.97)**	0.05
From continuing operations			
Basic		**(2.97)**	0.51

At 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**465,024**	459,809
Prepaid lease payments on land use rights	16	**15,867**	15,301
Goodwill	17	**69,479**	69,479
Mining right	18	**7,436**	7,142
Interest in a jointly controlled entity	19	**–**	–
Interest in an associate	20	**–**	–
Deposit and loan receivable	21	**202,556**	–
Club debenture		**–**	330
		760,362	552,061
CURRENT ASSETS			
Properties held for sale	22	**1,248**	2,252
Prepaid lease payments on land use rights	16	**411**	387
Inventories	23	**39,473**	36,593
Trade and other receivables	24	**253,971**	203,369
Deposits and prepayments		**8,615**	4,865
Amount due from a minority shareholder	36	**1,281**	–
Amounts due from fellow subsidiaries	36	**–**	1,927
Pledged short-term bank deposits	25	**26,391**	24,808
Bank balances and cash	25	**41,269**	42,192
		372,659	316,393
CURRENT LIABILITIES			
Trade and other payables and deposits received	26	**142,118**	114,571
Dividends payable to a minority shareholder	36	**738**	–
Amount due to former ultimate holding company	36	**12,841**	7,937
Amount due to a fellow subsidiary	36	**–**	9,603
Amount due to a minority shareholder	36	**–**	4,974
Amounts due to related companies	36	**777**	935
Tax liabilities		**3,329**	1,578
Borrowings due within one year	27	**242,310**	136,227
		402,113	275,825
NET CURRENT (LIABILITIES) ASSETS		**(29,454)**	40,568
TOTAL ASSETS LESS CURRENT LIABILITIES		**730,908**	592,629

CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
CAPITAL AND RESERVES			
Share capital	28	**182,349**	182,349
Reserves		**112,736**	118,298
Equity attributable to equity holders of the Company		**295,085**	300,647
Minority interests		**186,677**	173,093
TOTAL EQUITY		**481,762**	473,740
NON-CURRENT LIABILITIES			
Amount due to a minority shareholder	36	**400**	494
Amounts due to fellow subsidiaries	36	**–**	203
Borrowings due after one year	27	**220,000**	86,000
Deferred taxation	30	**28,746**	32,192
		249,146	118,889
		730,908	592,629

The consolidated financial statements on pages 38 to 103 were approved and authorised for issue by the Board of Directors on 7th April, 2008 and are signed on its behalf by:

Ng Qing Hai
DIRECTOR

Dato' Wong Peng Chong
DIRECTOR

	Attributable to equity holders of the Company										
	Share capital HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Merger reserve HK$'000 (Note a)	Capital reserve HK$'000	Other reserves HK$'000 (Note b)	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2006	182,349	918	44,203	873	1,799	824	14,108	45,566	290,640	159,822	450,462
Exchange difference arising on translation of presentation currency recognised directly in equity	–	–	–	9,620	–	–	–	–	9,620	6,464	16,084
Profit for the year	–	–	–	–	–	–	–	387	387	6,807	7,194
Total recognised income for the year	–	–	–	9,620	–	–	–	387	10,007	13,271	23,278
At 31st December, 2006 and **at 1st January, 2007**	**182,349**	**918**	**44,203**	**10,493**	**1,799**	**824**	**14,108**	**45,953**	**300,647**	**173,093**	**473,740**
Exchange difference arising on translation of presentation currency recognised directly in equity	**–**	**–**	**–**	**16,096**	**–**	**–**	**–**	**–**	**16,096**	**10,807**	**26,903**
(Loss) profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21,658)**	**(21,658)**	**6,463**	**(15,195)**
Total recognised income and expense for the year	**–**	**–**	**–**	**16,096**	**–**	**–**	**–**	**(21,658)**	**(5,562)**	**17,270**	**11,708**
Dividends paid to a minority shareholder	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,686)**	**(3,686)**
At 31st December, 2007	**182,349**	**918**	**44,203**	**26,589**	**1,799**	**824**	**14,108**	**24,295**	**295,085**	**186,677**	**481,762**

Notes:

(a) The merger reserve of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued by the Company as consideration for the acquisition under the reorganisations.

(b) Other reserves comprise reserve fund and enterprise expansion fund of Shanghai Allied Cement Co., Ltd. and Shandong Shanghai Allied Cement Co., Ltd. and the effect of fair value adjustment at initial recognition of interest-free amount due to former ultimate holding company. The reserve fund is to be used to expand the enterprise's working capital. When the enterprise suffers losses, the reserve fund may be used to make up unrecovered losses under special circumstances. The enterprise expansion fund is to be used for business expansion and, if approved, can also be used to increase capital.

The remittance outside the People's Republic of China (the "PRC") of retained profits of the subsidiaries established in the PRC is subject to approval of the local authorities and the availability of foreign currencies generated and retained by these subsidiaries.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
(Loss) profit before taxation		**(16,595)**	17,744
Adjustments for:			
Loss for the year from discontinued operation		**–**	(3,338)
Allowance for bad and doubtful debts		**5,820**	8,170
Bad and doubtful debts recovered		**(2,218)**	(3,174)
Depreciation and amortisation		**26,837**	24,788
Release of prepaid lease payments on land use rights		**411**	374
Loss on disposal and write off of property, plant and equipment		**839**	225
Finance costs	9	**33,598**	16,469
Interest income		**(4,123)**	(824)
Gain on disposal of subsidiaries		**(2,330)**	(8)
Effect of foreign exchange rate changes		**(6,149)**	(3,154)
OPERATING CASH INFLOW BEFORE MOVEMENTS IN WORKING CAPITAL		**36,090**	57,272
Decrease in properties held for sale		**1,148**	682
Increase in inventories		**(544)**	(2,237)
(Increase) decrease in trade and other receivables, deposits and prepayments		**(46,025)**	9,859
Decrease (increase) in amounts due from fellow subsidiaries		**2,044**	(1,139)
Increase in amount due from a minority shareholder		**(1,281)**	–
Increase (decrease) in trade and other payables and deposits received		**22,137**	(27,416)
Increase in amount due to former ultimate holding company		**4,224**	617
(Decrease) increase in amount due to a minority shareholder		**(5,291)**	2,156
Decrease in amount due to a fellow subsidiary		**(1,225)**	–
Decrease in amount due to a related company		**(158)**	(4,023)
Cash generated from operations		**11,119**	35,771
Income tax paid		**(2,391)**	(50)
NET CASH FROM OPERATING ACTIVITIES		**8,728**	35,721
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(3,699)**	(26,089)
Increase in deposit and loan receivable		**(200,000)**	–
Proceeds from disposal of property, plant and equipment		**376**	717
Interest received		**1,567**	824
Disposal of subsidiaries, net of cash and cash equivalents	35	**1,758**	(38)
Decrease in pledged bank deposits		**–**	20,337
NET CASH USED IN INVESTING ACTIVITIES		**(199,998)**	(4,249)

	2007	2006
	HK$'000	HK$'000
FINANCING ACTIVITIES		
Repayments of loans	**(189,956)**	(188,176)
Interest paid	**(32,922)**	(16,444)
(Repayment to) advance from a fellow subsidiary	**(9,603)**	281
Dividends paid to a minority shareholder	**(2,948)**	(4,668)
New loans raised	**423,184**	179,102
Repayment of obligations under a finance lease	**–**	(5)
Advance from a minority shareholder	**–**	18
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**187,755**	(29,892)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(3,515)**	1,580
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**42,192**	39,084
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**2,592**	1,528
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**41,269**	42,192

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and The Singapore Exchange Securities Trading Limited. Following the completion of the placing of the Company's ordinary shares which were beneficially owned by Tian An China Investments Company Limited ("Tian An") to independent investors on 29th June, 2007, Tian An ceased to be the Company's ultimate holding company and Tian An's subsidiaries ceased to be the Company's fellow subsidiaries. The address of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are set out in note 38 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars ("HKD") which is different from the functional currency of the Company, Renminbi ("RMB"), as the directors of the Company consider that Hong Kong dollars is the most appropriate presentation currency in view of its place of listing.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group has net current liabilities of HK$29,454,000 as at 31st December, 2007. In the opinion of the directors, the cash flows from operations, the credit facilities granted after the balance sheet date and the expected proceeds from the conditional share placing as set out in note 34 to the consolidated financial statements will provide adequate funds to enable the Group to meet in full its financial obligations as they fall due. The consolidated financial statements have therefore been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The adoption of the new HKFRSs had no material effect on how the Group's 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 applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions[3]
HK(IFRIC) – INT 12	Service concession arrangements[4]
HK(IFRIC) – INT 13	Customer loyalty programmes[5]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[4]

[1] *Effective for accounting periods beginning on or after 1st January, 2009.*
[2] *Effective for accounting periods beginning on or after 1st July, 2009.*
[3] *Effective for accounting periods beginning on or after 1st March, 2007.*
[4] *Effective for accounting periods beginning on or after 1st January, 2008.*
[5] *Effective for accounting periods beginning on or after 1st July, 2008.*

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 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for change 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 transaction.

The directors of the Company anticipate that the application of the other new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong 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 or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, 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 combinations 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a net assets and operations of another entity, for which the agreement date is before 1st January, 2005 represents the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree, at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill (net of cumulative amortisation as at 31st December, 2004) is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year.

When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under 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 net assets 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.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under 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 net assets 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.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

Revenue from sale of properties held for sale is recognised when the respective properties have been delivered to the buyers.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

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

Property, plant and equipment

Property, plant and equipment, including buildings held for use in production or supply of goods or services, or for administrative purpose other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their 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 their estimated residual values, using the straight-line method.

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 derecognised of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Mining right

On initial recognition, mining right acquired separately is recognised at cost. After initial recognition, mining right is carried at costs less accumulated amortisation and any accumulated impairment losses.

Gain or loss arising from derecognition of mining right is measured at the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the consolidated income statement when the asset is derecognised.

Impairment other than goodwill

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

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

Leasing

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

The Group as lessee

Rentals payable under operating lease 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.

Prepaid lease payments

The prepaid lease payments representing upfront payments for land use right are initially recognised at cost and released to the consolidated income statement over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Club debenture

Club debenture with indefinite useful life is carried at cost less any identified impairment loss and is tested for impairment annually.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is computed on a weighted average method. Net realisable value represents the estimated selling price less all estimated cost of completion and costs to be incurred in marketing, selling and distribution.

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 the profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement 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 at the balance sheet date.

Deferred tax is recognised 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associate and jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 profits 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 profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

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

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 the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items 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 (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to refund of value-added tax from tax authorities are recognised in the consolidated income statement when received or receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when a group entity becomes a part 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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including deposit and loan receivable, trade and other receivables, amount due from a minority shareholder, amounts due from fellow subsidiaries, pledged short-term bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. The accounting policies on impairment loss of financial assets are set out below.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of one year.

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 carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of loans and receivables *(Continued)*

The carrying amount is reduced by the impairment loss directly for all loans and receivables with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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 and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liability designated as fair value through profit or loss, of which the interest expense is included in net gains or losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities

Financial liabilities (including trade and other payables and deposits received, amounts due to former ultimate holding company/a fellow subsidiary/a minority shareholder/related companies, borrowings and dividends payable to a minority shareholder) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial 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 and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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

Equity settled share-based payment transactions

Share options granted to employees on or before 7th November, 2002, or granted after 7th November, 2002 and vested before 1st January, 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity settled share-based payment transactions *(Continued)*

Share options granted to directors and employees of the Group after 7th November, 2002 and vested on or after 1st 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 (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 estimates, if any, is recognised in profit or loss with a corresponding adjustment to share option reserve.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4 to the consolidated financial statements, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Allowance for bad and doubtful debts

The policy of allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2007, the carrying amount of goodwill was HK$69,479,000. Details of the recoverable amount calculation are disclosed in note 17 to the consolidated financial statements.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debt, which includes borrowings disclosed in note 27 to the consolidated financial statements and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits. The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues, share buy-backs as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007	2006
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**525,468**	272,296
Financial liabilities		
Amortised cost	**610,514**	358,330

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, deposit and loan receivable, amount due from a minority shareholder, pledged short-term bank deposits, bank balances and cash, amounts due from fellow subsidiaries, trade and other payables and deposits received, amounts due to former ultimate holding company, a fellow subsidiary, a minority shareholder, related companies and borrowings. Details of these financial instruments are disclosed in the 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 in a timely and effective manner.

Market risks

Interest rate risk

The Group's fair value interest rate risk relates primarily to certain fixed-rate pledged short-term bank deposits and bank and other borrowings (see note 27 to the consolidated financial statements for details of these borrowings). The Group has not used any derivative contracts to hedge these exposures to interest rate risk.

The Group's cash flow interest rate risk primarily relates to variable-rate loan receivable, bank balances, bank and other borrowings (see note 27 to the consolidated financial statements for details of these borrowings) and amount due to a fellow subsidiary (see note 36(b) to the consolidated financial statements for details). The Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and prime rate arising from the Group's HKD borrowings.

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date relates to floating-rate bank and other borrowings, amount due to a fellow subsidiary, variable-rate loan receivable and bank balances. The analysis is prepared assuming the amount of asset and liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constants, the Group's:

- loss for the year ended 31st December, 2007 would increase/decrease by HK$263,000 (2006: profit would decrease/increase by HK$193,000)

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The directors considered that the Group's exposure to foreign currency exchange risk is insignificant as the majority of the Group's transactions are denominated in the functional currency of the respective group entities.

As at balance sheet date, the Group has deposit and loan receivable denominated in HKD and certain bank balances denominated in HKD and United States Dollars ("USD") amounting to HK$202,556,000 (2006: nil), HK$5,386,000 (2006: HK$1,558,000), and HK$29,000 (2006: HK$30,000) respectively and borrowings denominated in HKD and USD amounting to HK$337,521,000 (2006: HK$108,500,000) and nil (2006: HK$13,275,000) respectively, which are the currencies other than the functional currency of the respective group entities.

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

Foreign currency risk (Continued)

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

The Group is mainly exposed to the HKD and USD for bank balances, deposit and loan receivable and borrowings in both years.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD and 5% increase and decrease in RMB against HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only USD and HKD bank balances, deposit and loan receivable and borrowings, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in loss/an increase in profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against in the USD and HKD, there would be an equal and opposite impact on the loss/profit for the year, and the balance below would be negative.

	HKD		**USD**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loss or profit for the year	**6,479**	5,347	**(1)**	662

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, deposit and loan receivable, pledged short-term bank deposits, amount due from a minority shareholder and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties, failure to perform their obligations as at 31st December, 2007 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 credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual debt and deposit and loan receivable regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significant reduced.

The Group's pledged short-term bank deposits and bank balances are deposited with banks of high credit ratings in Hong Kong and the PRC.

The Group has significant concentration of credit risk on deposit and loan receivable and amount due from a minority shareholder as the credit risk is mainly attributable from one counterparty. Other than this, there is no significant concentration of credit risk on trade and other receivables as the exposure spread over a number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In additional to issuance of new shares, the Group also relies on bank and other borrowings as a significant source of liquidity. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	5 + years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2007 HK$'000
2007								
Borrowings – fixed rate	14.25	19,992	30,586	128,547	239,000	–	418,125	354,789
Borrowings – variable rate	6.74	88,036	7,314	12,914	–	–	108,264	107,521
Trade and other payables	–	50,577	35,144	47,727	–	–	133,448	133,448
Dividends payable to a minority shareholder	–	738	–	–	–	–	738	738
Amounts due to related companies	–	777	–	–	–	–	777	777
Amount due to former ultimate holding company	–	12,841	–	–	–	–	12,841	12,841
Amount due to a minority shareholder	5.58	–	–	–	–	2,978	2,978	400
		172,961	73,044	189,188	239,000	2,978	677,171	610,514

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	5 + years	Total undiscounted cash flows	Carrying amount at 31.12.2006
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006								
Borrowings – fixed rate	5.62	9,184	46,806	60,618	–	–	116,608	113,727
Borrowings – variable rate	5.89	24	1,514	27,253	92,039	–	120,830	108,500
Trade and other payables	–	63,087	5,001	43,869	–	–	111,957	111,957
Amount due to former ultimate holding company	–	7,937	–	–	–	–	7,937	7,937
Amounts due to fellow subsidiaries	10.95	603	–	9,413	–	1,087	11,103	9,806
Amount due to a minority shareholder	5.58	4,974	–	–	–	2,799	7,773	5,468
Amounts due to related companies	–	935	–	–	–	–	935	935
		86,744	53,321	141,153	92,039	3,886	377,143	358,330

Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

The directors consider that the carrying values of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their corresponding fair values.

8. SEGMENT INFORMATION

For management purposes, the Group is currently organised into two operating divisions – (1) distribution and manufacturing of cement and clinker and (2) distribution and manufacturing of slag powders. Distribution of ceramic tiles, granite and marble products has been discontinued during the year ended 31st December, 2006. The two operating divisions are the basis on which the Group reports its primary segment information. The Group's operations are principally located in the PRC. An analysis of the Group's revenue and segment results by business segments is as follows:

Business segments

(1) Segment revenue

	Continuing operations			Discontinued operation	
	Distribution and manufacturing of cement and clinker	**Distribution and manufacturing of slag powders**	**Total**	**Distribution of ceramic tiles, granite and marble products**	**Consolidated**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
For the year ended 31st December, 2007					
Segment revenue	**420,683**	**13,617**	**434,300**	**–**	**434,300**
Segment results	**23,185**	**(1,453)**	**21,732**	**–**	**21,732**
Unallocated income			**9,512**	**–**	**9,512**
Unallocated expenses			**(14,241)**	**–**	**(14,241)**
Finance costs			**(33,598)**	**–**	**(33,598)**
Loss before taxation			**(16,595)**	**–**	**(16,595)**
Taxation credit			**1,400**	**–**	**1,400**
Loss for the year			**(15,195)**	**–**	**(15,195)**
For the year ended 31st December, 2006					
Segment revenue	367,691	17,240	384,931	1,580	386,511
Segment results	32,790	3,303	36,093	(3,338)	32,755
Unallocated income			5,136	–	5,136
Unallocated expenses			(7,016)	–	(7,016)
Finance costs			(16,469)	–	(16,469)
Profit before taxation			17,744	(3,338)	14,406
Taxation charge			(7,207)	(5)	(7,212)
Profit (loss) for the year			10,537	(3,343)	7,194

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(2) Balance sheet

	Distribution and manufacturing of cement and clinker HK$'000	**Distribution and manufacturing of slag powders** HK$'000	**Consolidated** HK$'000
2007			
ASSETS			
Segment assets			
Mining right	**7,436**	**–**	**7,436**
Goodwill	**69,479**	**–**	**69,479**
Other assets	**760,561**	**24,824**	**785,385**
	837,476	**24,824**	**862,300**
Unallocated corporate assets			**270,721**
Consolidated total assets			**1,133,021**
LIABILITIES			
Segment liabilities	**137,258**	**7,633**	**144,891**
Unallocated corporate liabilities			**506,368**
Consolidated total liabilities			**651,259**
2006			
ASSETS			
Segment assets			
Mining right	7,142	–	7,142
Goodwill	69,479	–	69,479
Other assets	699,856	20,963	720,819
	776,477	20,963	797,440
Unallocated corporate assets			71,014
Consolidated total assets			868,454
LIABILITIES			
Segment liabilities	108,540	3,894	112,434
Unallocated corporate liabilities			282,280
Consolidated total liabilities			394,714

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(3) Other Information

	Continuing operations				Discontinued operation	
	Distribution and manufacturing of cement and clinker	Distribution and manufacturing of slag powders	Unallocated	Total	Distribution of ceramic tiles, granite and marble products	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2007						
Additions to property, plant and equipment	**3,620**	**79**	**–**	**3,699**	**–**	**3,699**
Depreciation and amortisation and release of prepaid lease payments on land use rights	**26,467**	**747**	**34**	**27,248**	**–**	**27,248**
Allowance for bad and doubtful debts	**4,195**	**1,625**	**–**	**5,820**	**–**	**5,820**
Bad and doubtful debts recovered	**(2,163)**	**(55)**	**–**	**(2,218)**	**–**	**(2,218)**
2006						
Additions to property, plant and equipment	9,760	360	64	10,184	–	10,184
Depreciation and amortisation and release of prepaid lease payments on land use rights	24,254	722	114	25,090	72	25,162
Allowance for bad and doubtful debts	5,280	–	303	5,583	2,587	8,170
Bad and doubtful debts recovered	(3,174)	–	–	(3,174)	–	(3,174)

8. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's operations are mainly located in the PRC.

Over 90% of each segment revenue is derived from customers located in the PRC.

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**862,300**	797,440	**3,699**	10,120
Hong Kong	**–**	–	**–**	64
	862,300	797,440	**3,699**	10,184

9. FINANCE COSTS

	Continuing operations and consolidated	
	2007	2006
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**15,136**	13,524
Imputed interest on amounts due to fellow subsidiaries and a minority shareholder	**676**	25
Other borrowing costs	**17,786**	2,920
Total	**33,598**	16,469

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of the directors and the five highest paid individuals are summarised as follows:

Directors' emoluments

	2007						2006					
		Other emoluments						Other emoluments				
	Directors' fees	Salaries and other benefits	Compensation for loss of office	Performance related bonuses	Retirement benefits scheme contributions	Total	Directors' fees	Salaries and other benefits	Compensation for loss of office	Performance related bonuses	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Ng Qing Hai	**10**	**1,557**	**–**	**–**	**72**	**1,639**	10	1,593	–	–	72	1,675
Dato' Wong Peng Chong	**–**	**233**	**–**	**–**	**–**	**233**	–	–	–	–	–	–
Kong Muk Yin	**–**	**187**	**–**	**–**	**–**	**187**	–	–	–	–	–	–
Li Chi Kong	**5**	**77**	**–**	**–**	**4**	**86**	10	164	–	121	8	303
Ko Sing Ming	**–**	**–**	**–**	**–**	**–**	**–**	8	–	336	–	1	345
Lee Siu Chung, Steven	**–**	**–**	**–**	**–**	**–**	**–**	8	117	–	39	5	169
Chen Ching	**10**	**70**	**–**	**–**	**–**	**80**	40	20	–	–	–	60
Jin Hui Zhi	**10**	**70**	**–**	**–**	**–**	**80**	40	20	–	–	–	60
Li Chak Hung	**10**	**90**	**–**	**–**	**–**	**100**	60	20	–	–	–	80
Wong Ping, Iris	**5**	**–**	**–**	**–**	**–**	**5**	2	–	–	–	–	2
Total	**50**	**2,284**	**–**	**–**	**76**	**2,410**	178	1,934	336	160	86	2,694

Notes:

(a) Certain directors of the Company received remuneration from a company, or a wholly-owned subsidiary of such company, which has significant beneficial interests in the Company's former ultimate holding company. Such companies provided management services to the Group and charged the Group a fee, which is included in management fee as disclosed in note 36(iv) to the consolidated financial statements, for services provided by those directors as well as other management personnel who are not directors of the Company. The above-mentioned management fee commenced to be charged in 2005 and is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the directors mentioned above. The total of such apportioned amounts, which have been included in the above table, is HK$81,000 (2006: HK$454,000).

(b) Certain directors of the Company received remuneration from a related company of the Company. A wholly-owned subsidiary of the substantial shareholder of the Company provided administrative services to the Group and being reimbursed by the Group the administrative expenses as disclosed in note 36 (iii) to the consolidated financial statements for sharing of facilities and for services provided by those directors as well as other management personnel, on cost basis. The above-mentioned reimbursement of administrative expenses commenced in July 2007 and is calculated by reference to time devoted by the management personnel on affairs of the Group and can be apportioned to the directors mentioned above. The total of such apportioned amounts, which have been included in the above table is HK$420,000 (2006: nil).

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The performance bonus is an incentive scheme adopted by Shanghai Allied Cement Co., Ltd, Shandong Allied Wangchao Cement Ltd. and Shangdong Shanghai Allied Cement Co., Ltd. Criterion on the incentive scheme are:

1. Amount of profits
2. Average cost of production
3. Quantities cement and clinker produced
4. Electricity consumption
5. Coal consumption
6. Aggregate amount of aging debts

Each company bases on its annual budgeted performance to set out its targets. If pre-set targets are achieved in a particular month, all staff will entitle to performance related bonus as illustrated in each target level as well as on individual's assessed performance during subject month.

Employees' emoluments

The five highest paid individuals included one director (2006: two directors) of the Company, whose emoluments are disclosed above. The emoluments of the remaining four (2006: three) highest paid individuals for the year ended 31st December, 2007 which were individually less than HK$1,000,000 were as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**1,406**	1,546
Performance related bonuses	**114**	292
Contributions to retirement benefit schemes	**33**	17
	1,553	1,855

During both years, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group.

11. TAXATION CREDIT (CHARGE)

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Current tax						
– PRC Enterprise Income Tax	**(4,044)**	(10)	**–**	(5)	**(4,044)**	(15)
Deferred tax (Note 30)						
– Current year	**2,925**	(7,197)	**–**	–	**2,925**	(7,197)
– Attributable to a change on tax rate	**2,519**	–	**–**	–	**2,519**	–
	1,400	(7,207)	**–**	(5)	**1,400**	(7,212)

No provision for Hong Kong Profits Tax is made as the group companies operating in Hong Kong do not have any assessable profit for both years.

Shanghai Allied Cement Co., Ltd. and Shandong Allied Wangchao Cement Limited enjoy PRC Enterprise Income Tax rate of 27% since they are located in designated coastal cities engaging in the manufacturing business. On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 27% to 25% for Shanghai Allied Cement Co., Ltd. and Shandong Allied Wangchao Cement Limited from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

The PRC Enterprise Income Tax is calculated at the rates applicable to respective subsidiaries. In accordance with the tax legislations applicable to foreign investment enterprises, one of the subsidiaries in the PRC are entitled to exemptions from the PRC Enterprise Income Tax for the two years commencing from the first profit-making year of operation and thereafter, entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years. The subsidiary can continue to entitle such tax concession according to the New Law and the charge of PRC Enterprise Income Tax for the year has been provided for after taking these tax incentive into account.

11. TAXATION CREDIT (CHARGE) *(Continued)*

	2007 HK$'000	2006 HK$'000
(Loss) profit before taxation:		
Continuing operations	**(16,595)**	17,744
Discontinued operation	**–**	(3,338)
	(16,595)	14,406
Tax at the domestic income tax rate of 27% (2006: 27%)	**4,481**	(3,890)
Tax effect of expenses not deductible for tax purpose	**(6,027)**	(3,473)
Tax effect of income not taxable for tax purpose	**1,619**	121
Tax effect of tax loss not recognised	**(6,038)**	(2,042)
Tax effect of utilisation of tax losses previously not recognised	**2,833**	1,641
Effect of tax exemption granted to PRC subsidiary	**5,479**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(3,466)**	470
Decrease in opening deferred tax liability resulting from a decrease in tax rate	**2,519**	–
Others	**–**	(39)
Taxation credit (charge) for the year	**1,400**	(7,212)

Note: The domestic tax rate represents the statutory tax rate of the major group companies operating in the PRC.

12. DISCONTINUED OPERATION

On 27th March, 2006, the Group entered into a sale agreement to dispose of subsidiaries, SAC Engineering Limited and SAC Engineering Company Limited, which carried out all of the Group's distribution of ceramic tiles, granite and marble products. The disposal was completed on 22nd December, 2006, on which date control of SAC Engineering Limited and SAC Engineering Company Limited was passed to the acquirer.

The results of the discontinued operation which represented the ceramic tiles, granite and marbles operation for the year were as follows:

	2007	2006
	HK$'000	HK$'000
Turnover	–	1,580
Cost of sales	–	(1,345)
Other income	–	160
Distribution expenses	–	(631)
Administrative expenses	–	(515)
Allowance for bad and doubtful debts	–	(2,587)
Loss before taxation	–	(3,338)
Taxation charge	–	(5)
Loss for the year	–	(3,343)

In the previous year, the ceramic tiles, granite and marbles operations contributed HK$6,110,000 to the Group's net operating cash flows, contributed HK$5,586,000 in respect of investing activities and contributed HK$390,000 in respect of financing activities.

13. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Loss) profit for the year has been arrived at after charging:						
Staff costs						
Directors' remuneration (Note 10)	**2,410**	2,694	**–**	–	**2,410**	2,694
Less: Apportionment of management fee and administrative expenses	**(501)**	(454)	**–**	–	**(501)**	(454)
	1,909	2,240	**–**	–	**1,909**	2,240
Contributions to retirement benefit schemes – other staff	**5,079**	4,346	**–**	62	**5,079**	4,408
Other staff costs	**20,939**	21,888	**–**	488	**20,939**	22,376
	27,927	28,474	**–**	550	**27,927**	29,024
Auditor's remuneration	**1,546**	1,033	**–**	97	**1,546**	1,130
Amortisation of mining right (included in administrative expenses)	**162**	147	**–**	–	**162**	147
Depreciation of property, plant and equipment	**26,675**	24,569	**–**	72	**26,675**	24,641
Total amortisation and depreciation	**26,837**	24,716	**–**	72	**26,837**	24,788
Release of prepaid lease payments on land use rights	**411**	374	**–**	–	**411**	374
Rental payments for premises under operating leases	**1,178**	630	**–**	31	**1,178**	661
Rental payments for plant and machinery under operating leases	**1,542**	1,346	**–**	–	**1,542**	1,346
Other rental expenses	**–**	585	**–**	–	**–**	585
Loss on disposal and write-off of property, plant and equipment	**839**	225	**–**	–	**839**	225
and after crediting: (Note a)						
Interest income	**4,123**	821	**–**	3	**4,123**	824
Foreign exchange gain	**6,372**	4,019	**–**	72	**6,372**	4,091
Foreign exchange loss	**(368)**	(236)	**–**	–	**(368)**	(236)
Net foreign exchange gain	**6,004**	3,783	**–**	72	**6,004**	3,855
Refund of value-added tax	**17,124**	14,589	**–**	–	**17,124**	14,589

Note (a) Included in other income.

14. (LOSS) EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic (loss) earnings per share is based on 729,395,043 (2006: 729,395,043) shares in issue throughout the year.

From continuing operations

The calculation of the basic (loss) earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	2007	2006
	HK$'000	HK$'000
(Loss) profit for the year attributable to equity holders of the Company	**(21,658)**	387
Less: Loss for the year from discontinued operation	**–**	(3,343)
(Loss) earnings for the purposes of basic (loss) earnings per share from continuing operations	**(21,658)**	3,730

From discontinued operation

Basic loss per share for the discontinued operation for 2006 was 0.46 HK cents per share.

The calculation of the basic loss per share for 2006 was based on the loss for the year of HK$3,343,000 attributable to the equity holders of the Company.

No diluted loss per share has been presented in 2007 because all share options outstanding were lapsed during the year ended 2007.

No diluted earnings per share has been presented for 2006 because the exercise price of the Company's share options was higher than the average market price of shares.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Construction in progress	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP							
COST							
At 1st January, 2006	238,056	541	426,203	7,011	3,201	6,124	681,136
Effect on exchange adjustments	9,738	17	17,311	56	115	271	27,508
Additions	1,946	60	1,817	4,423	136	1,802	10,184
Disposals and write-off	(785)	–	(52)	(5)	(8)	(643)	(1,493)
Reclassification	6,229	–	4,981	(11,210)	–	–	–
At 31st December, 2006 and **at 1st January 2007**	**255,184**	**618**	**450,260**	**275**	**3,444**	**7,554**	**717,335**
Effect on exchange adjustments	**16,243**	**28**	**28,827**	**18**	**192**	**461**	**45,769**
Additions	**69**	**–**	**1,163**	**1,317**	**299**	**851**	**3,699**
Disposals and write-off	**–**	**(187)**	**(1,329)**	**–**	**(168)**	**(306)**	**(1,990)**
Reclassification	**47**	**–**	**111**	**(196)**	**38**	**–**	**–**
At 31st December, 2007	**271,543**	**459**	**479,032**	**1,414**	**3,805**	**8,560**	**764,813**
DEPRECIATION							
At 1st January, 2006	56,627	331	161,856	–	1,935	2,988	223,737
Effect on exchange adjustments	2,484	13	6,995	–	77	130	9,699
Provided for the year	7,568	74	15,793	–	368	838	24,641
Eliminated on disposals and write-off	(378)	–	(17)	–	(7)	(149)	(551)
At 31st December, 2006 and **at 1st January 2007**	**66,301**	**418**	**184,627**	**–**	**2,373**	**3,807**	**257,526**
Effect on exchange adjustments	**4,202**	**23**	**11,785**	**–**	**131**	**222**	**16,363**
Provided for the year	**8,067**	**29**	**17,535**	**–**	**347**	**697**	**26,675**
Eliminated on disposals and write-off	**–**	**(66)**	**(325)**	**–**	**(136)**	**(248)**	**(775)**
At 31st December, 2007	**78,570**	**404**	**213,622**	**–**	**2,715**	**4,478**	**299,789**
CARRYING VALUES							
At 31st December, 2007	**192,973**	**55**	**265,410**	**1,414**	**1,090**	**4,082**	**465,024**
At 31st December, 2006	188,883	200	265,633	275	1,071	3,747	459,809

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	2.7% – 10%, or shorter, of the relevant lease term
Leasehold improvements	4.5% – 10%, or shorter, of the relevant lease term
Plant and machinery	4% – 8%
Furniture, fixtures and equipment	15% – 20%
Motor vehicles	18% – 25%

The carrying value of buildings which are located on land held under medium-term leases comprises:

	2007	2006
	HK$'000	HK$'000
Hong Kong	**230**	240
PRC	**192,743**	188,643
	192,973	188,883

16. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2007	2006
	HK$'000	HK$'000
The prepaid lease payments on land use rights comprise:		
Leasehold land in PRC:		
Medium-term lease	**16,278**	15,688
Analysed for reporting purposes as:		
Current	**411**	387
Non-current	**15,867**	15,301
	16,278	15,688

17. GOODWILL AND IMPAIRMENT TEST ON GOODWILL

	HK$'000
COST	
At 1st January, 2006, 31st December, 2006 and **31st December, 2007**	83,618
IMPAIRMENT	
At 1st January, 2006, 31st December, 2006 and **31st December, 2007**	14,139
CARRYING VALUE	
At 31st December, 2006 and **31st December, 2007**	69,479

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill of HK$83,618,000 was wholly allocated to cash-generating unit in distribution and manufacturing of cement and clinker of a subsidiary (the "Unit").

Upon the application of HKFRS 3, the Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the Unit are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rates and expected changes to selling prices and direct costs during the forecasted period. Management estimates discount rate of 12.55% (2006: 8.56%), using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Unit. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepared cash flow projections derived from the most recent financial budgets approved by management covering a five-year period and extrapolated cash flows of the Unit for the following eight years using zero growth rate.

During the year ended 31st December, 2007, management of the Group determines that there are no impairments of the Unit.

Due to the effects caused by the macro-economic adjustments in the PRC and the uncertainty about the market conditions in previous years, the Group revised its cash flow projections for the Unit during the year ended 31st December, 2005. The Unit was therefore reduced to its recoverable amount through recognition of an impairment loss against goodwill of HK$14,139,000 in that year.

18. MINING RIGHT

	HK$'000
COST	
At 1st January, 2006 and 31st December, 2006	7,383
Effect on exchange adjustments	471
At 31st December, 2007	**7,854**
AMORTISATION	
At 1st January, 2006	86
Effect on exchange adjustments	8
Charge for the year	147
At 31st December, 2006	241
Effect on exchange adjustments	15
Charge for the year	162
At 31st December, 2007	**418**
CARRYING VALUES	
At 31st December, 2007	**7,436**
At 31st December, 2006	7,142

The licence period is 10 years and renewable for another 10 years or more at minimal charge. In the opinion of the directors, the mining right is amortised on a straight line basis over its estimated useful life of 50 years.

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2007 & 2006
	HK$'000
Cost of unlisted investment in a jointly controlled entity	23,458
Share of post-acquisition losses	(23,458)
	–
Amount due from a jointly controlled entity	13,230
Less: Allowance	(13,230)
	–

Particulars of the jointly controlled entity at 31st December, 2007 and 2006, which is established and operates in the PRC, are as follows:

Name of entity	**Form of business structure**	**Registered capital**	**Proportion of registered capital held by the Group**	**Principal activity**
			%	
Foshan Hunter Ceramic Co., Ltd.	Incorporated	US$5,012,500	60	Inactive

Foshan Hunter Ceramic Co., Ltd. has been accounted for as a jointly controlled entity as, the Group is not able to exercise unilateral control but in a position to exercise common control over the management of this company.

The amount due from the jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

20. INTEREST IN AN ASSOCIATE

	2007 & 2006
	HK$'000
Cost of unlisted investment in an associate	24,911
Share of post-acquisition losses	(24,911)
	–
Amount due from an associate	41,479
Less: Allowance	(41,479)
	–

Particulars of the Group's associate at 31st December, 2007 and 2006, which is established in the PRC, are as follows:

Name of entity	Form of business structure	Registered capital	Proportion of registered capital held by the Group %	Principal activity
Foshan Three Union Ceramic Co., Ltd.	Incorporated	US$6,652,800	48	Inactive

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

21. DEPOSIT AND LOAN RECEIVABLE

Included in deposit and loan receivable are refundable deposit of HK$150,000,000 paid to Sunnysino Limited for the acquisition of Redstone Gold Limited ("Redstone") with details as set out in note 34 to the consolidated financial statements, loan receivable of HK$50,000,000 and interest receivable of HK$2,556,000 due from Redstone. The payments of the refundable deposit and the loan receivable were financed by other borrowings of the Group. The loan bears interest at Prime Rate plus 5% per annum and be repaid within six months after 31st July, 2008. The loan is used to finance the operation of Redstone and its subsidiary. The deposit and the loan receivable are secured by share mortgages over 90% of the issued share capital of Redstone and personal guarantee given by the beneficial owner of such 90% issued share capital of Redstone.

22. PROPERTIES HELD FOR SALE

The balance represents properties transferred in previous years from trade debtors of a subsidiary, Shanghai Allied Cement Co., Ltd. ("Shanghai SAC") in lieu of cash settlement and registered in the name of Shanghai SAC.

23. INVENTORIES

	2007	2006
	HK$'000	HK$'000
Inventories consist of the following:		
Raw materials	**29,177**	22,884
Work in progress	**4,354**	3,266
Finished goods	**5,942**	10,443
	39,473	36,593

24. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	HK$'000
Trade receivables	**283,591**	225,465
Less: allowance for bad and doubtful debts for trade receivables	**(38,189)**	(33,964)
	245,402	191,501
Other receivables	**25,185**	26,079
Less: allowance for bad and doubtful debts for other receivables	**(16,616)**	(14,211)
	8,569	11,868
Total trade and other receivables	**253,971**	203,369

24. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group has a policy of allowing its trade customers credit periods normally ranging from 120 days to 1 year. Included in trade and other receivables are trade receivables of approximately HK$245,402,000 (2006: HK$191,501,000) and their aged analysis is as follows:

	2007	2006
	HK$'000	HK$'000
0 – 90 days	**187,538**	128,793
91 – 180 days	**32,575**	26,892
181 – 365 days	**19,935**	16,833
Over 1 year	**5,354**	18,983
	245,402	191,501

As at 31st December, 2007, discounted bills receivable with recourse of approximately HK$50,321,000 (2006: HK$15,453,000) was included in trade receivables.

Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Approximately 98% (2006: 90%) of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of HK$5,354,000 (2006: HK$18,983,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group holds the collateral with approximate market value of HK$4,000,000 (2006: nil) of motor vehicles over these balances and the remaining balances are gradually settled. The average age of these receivables is 502 days (2006: 390 days).

Ageing of trade receivables which are past due but not impaired.

	2007	2006
	HK$'000	HK$'000
Over 1 year	**5,354**	18,983

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for bad and doubtful debts

	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**48,175**	42,955
Exchange difference	**3,028**	2,811
Amounts written off as uncollectible	**5,820**	5,583
Amounts recovered during the year	**(2,218)**	(3,174)
Balance at end of the year	**54,805**	48,175

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$5,820,000 (2006: HK$5,583,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

25. PLEDGED SHORT-TERM BANK DEPOSITS/BANK BALANCES AND CASH

Bank deposits totalling HK$26,391,000 (2006: HK$24,808,000) were pledged to banks as collateral to secure short-term banking facilities in respect of bills payable to suppliers and are therefore classified as current assets. The pledged short-term bank deposits carry fixed interest rate of 2.25% to 3.42% (2006: 2.07% to 2.25%) per annum. Bank balances and cash comprise cash and bank balances held by the Group with maturity of three months or less and carry interest at market rates which range from 0.01% to 3.5% (2006: 1.99% to 2.85%) per annum.

The Group's bank balances and cash that are not denominated in the functional currencies of the respective entities are as follows:

	2007	2006
	HK$'000	HK$'000
USD	**29**	30
HKD	**5,386**	1,558

26. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables and deposits received are trade payables of approximately HK$88,702,000 (2006: HK$72,337,000) and their aged analysis is as follows:

	2007	2006
	HK$'000	HK$'000
0 – 90 days	**73,699**	64,953
91 – 180 days	**6,569**	3,820
181 – 365 days	**4,354**	2,097
Over 1 year	**4,080**	1,467
	88,702	72,337

27. BORROWINGS

Included in new bank borrowings is an amount of approximately HK$50,321,000 (2006: HK$15,453,000) which represents the proceeds from discounted bills receivable with recourse.

	2007	2006
	HK$'000	HK$'000
Unsecured borrowings comprise:		
Bank loans	**223,289**	222,227
Other loans	**239,021**	–
	462,310	222,227
Borrowings are repayable as follows:		
On demand or within one year	**242,310**	136,227
More than one year, but not exceeding two years	**220,000**	86,000
	462,310	222,227
Less: Amount repayable within one year and shown under current liabilities	**(242,310)**	(136,227)
Amount due after one year	**220,000**	86,000

27. BORROWINGS *(Continued)*

The Group's borrowings that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	HKD	**USD**
	HK$'000	HK$'000
2007		
Bank loans	**98,500**	**–**
Other loans	**239,021**	**–**
	337,521	**–**
2006		
Bank loans	108,500	13,275

The exposure of the Group's fixed-rate and variable-rate borrowings are as follows:

	2007	2006
	HK$'000	HK$'000
Fixed-rate borrowings:		
Bank loans repayable within one year	**124,789**	113,727
Other loan repayable within one year	**10,000**	–
Other loan repayable after one year, but not exceeding two years	**220,000**	–
	354,789	113,727
Variable-rate borrowings:		
Bank loans repayable within one year	**98,500**	108,500
Other loan repayable within one year	**9,021**	–
	107,521	108,500

27. BORROWINGS *(Continued)*

The variable-rate borrowings carry interest rate, which are repricing annually, as follows:

	2007	2006
	HK$'000	HK$'000
Hong Kong Interbank Offered Rate plus 1.5%	**86,000**	96,000
Prime rate	**12,500**	12,500
Prime rate plus 3.5%	**9,021**	–
	107,521	108,500

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2007	2006
Effective interest rate:		
Fixed-rate borrowings	**4.32% – 30%**	5.62%
Variable-rate borrowings	**5.31% – 11.5%**	5.88% – 8%

During the year, in respect of a bank loan with a carrying value of HK$86,000,000 as at 31st December, 2007, the Group breached a term of the bank loan which related to the debt-equity ratio of the Group due to additional borrowings for payment of the deposit and loan receivable as set out in note 21 to the consolidated financial statements. On discovery of the breach, the directors of the Company informed the lender and commenced a renegotiation of the terms of the loan with the relevant bank. Up to the date of the issue of the consolidated financial statements, those negotiations had not been concluded. Since the lender has not yet agreed to waive its rights to demand immediate payment as at the balance sheet date, the loan has been classified as a current liability in the consolidated financial statements.

28. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.25 each		
At 1st January, 2006, 31st December, 2006 and 31st December, 2007	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each		
At 1st January, 2006, 31st December, 2006 and 31st December, 2007	729,395,043	182,349

29. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted by the shareholders of the Company pursuant to a resolution passed on 23rd May, 2002 for the primary purpose of providing the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The Scheme will expire on 22nd May, 2012.

The total number of shares in respect of which options may be granted under the Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the shareholders of the Company.

29. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Options granted must be taken up within 21 days from date of grant, upon payment of HK$10 per option. An option may be exercised in accordance with the terms of the Scheme at any time during the effective period of the Scheme to be notified by the board of directors which shall not be later than 10 years from date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant and, the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant.

The following table discloses details of the Company's share options held by directors, employees and movements of such holdings during the year:

	Outstanding at 1st January, 2006	Lapsed during 2006	Cancelled during 2006	**Outstanding at 1st January, 2007**	**Lapsed during 2007**	**Outstanding at 31st December, 2007**
Held by directors	6,100,000	–	(4,600,000)	**1,500,000**	**(1,500,000)**	**–**
Held by employees	15,000,000	(1,600,000)	(13,400,000)	**–**	**–**	**–**
	21,100,000	(1,600,000)	(18,000,000)	**1,500,000**	**(1,500,000)**	**–**

The options are exercisable from 28th January, 2004 to 27th July, 2013 with an exercise price of HK$0.70.

30. DEFERRED TAXATION

At the balance sheet date and during the year, deferred tax liabilities (assets) have been recognised in respect of the temporary differences attributable to the following:

	Accelerated tax depreciation	**Allowance for doubtful debts**	**Others**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2006	32,241	(9,285)	883	23,839
Exchange differences	1,351	(195)	–	1,156
Charge (credit) to income for the year	1,867	5,336	(6)	7,197
At 31st December, 2006 and **1st January, 2007**	**35,459**	**(4,144)**	**877**	**32,192**
Exchange differences	**2,263**	**(265)**	**–**	**1,998**
Effect of change in tax rate	**(2,794)**	**327**	**(52)**	**(2,519)**
Credit to income for the year	**(1,996)**	**(748)**	**(181)**	**(2,925)**
At 31st December, 2007	**32,932**	**(4,830)**	**644**	**28,746**

At 31st December, 2007, the Group has estimated unused tax losses of HK$164,268,000 (2006: HK$149,478,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax loss of HK$14,019,000 (2006: HK$1,379,000) will be expired in 2012 and the remaining unused tax losses may be carried forward indefinitely.

31. MAJOR NON-CASH TRANSACTIONS

No major non-cash transaction was noted during the year ended 31st December, 2007.

During the year ended 31st December, 2006, the Group occupied its two properties of HK$1,864,000 as sales offices. The Group reclassified the above properties from properties held for sale to property, plant and equipment of HK$884,000 and prepaid lease payments of HK$980,000 respectively.

32. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK$1,000 per person.

The PRC employees of the Group are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute 20% – 22% of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the Group made total contributions to the retirement benefits schemes of HK$5,155,000 (2006: HK$4,494,000). Included in the total contribution made, HK$76,000 (2006: HK$86,000) is contribution made for Hong Kong employees.

33. OPERATING LEASE COMMITMENTS

In June 2001, the Group entered into an arrangement with a third party in the PRC to lease the production facilities for manufacture of cement with a term of twenty years.

	2007 **HK$'000**	2006 HK$'000
Minimum lease payments under operating leases recognised as an expense in the year	**2,720**	2,007

33. OPERATING LEASE COMMITMENTS *(Continued)*

At 31st December, 2007, the Group had commitments for future minimum lease payments under the above arrangement and other non-cancellable operating leases for premises and property, plant and equipment which fall due as follows:

	2007	2006
	HK$'000	HK$'000
Not later than one year	**1,887**	2,002
Later than one year and not later than five years	**7,187**	7,160
Later than five years	**13,036**	13,730
	22,110	22,892

34. COMMITMENTS

(a) On 26th July, 2007, the Group entered into an agreement (as supplemented by a supplemental agreement on 14th September, 2007) with Sunnysino Limited ("Sunnysino") and Orrita Group Limited ("Orrita") which have conditionally agreed to sell and the Group has conditionally agreed to purchase, the entire issued share capital of Redstone at an aggregate consideration of HK$1,000,000,000. An initial refundable deposit of HK$150,000,000 has been paid during the year as disclosed in note 21 to the consolidated financial statements. The balance of the aggregate consideration in the sum of HK$850,000,000 will be settled by the Group in the following manner:

(1) Upon completion of the purchase of the shares

– as to HK$530,000,000 payable to Sunnysino by way of allotment and issue of the consideration shares by the Company to Sunnysino at a price of HK$1.00 per consideration share, credited as fully paid up, and by way of cash payment of HK$85,000,000 to Sunnysino and

– as to HK$100,000,000 payable to Orrita in cash and

(2) Upon fulfillment of the 2008 vendor's indemnity as and the 2009 vendor's indemnity as set out in the agreement, the balance of the consideration of HK$135,000,000 payable to Sunnysino in cash.

(b) On 18th September, 2007, the Group agreed to place, through the placing agent on a fully underwritten basis, not more than 600,000,000 new shares of the Company conditionally to independent investors at a price of not less than HK$1.00 per placing share.

35. DISPOSAL OF SUBSIDIARIES

On 27th April, 2007, the Group entered into a sale and purchase agreement to dispose of its subsidiaries, Year Invest Investments Limited and its subsidiaries, which were engaged in property investment, at an aggregate consideration of HK$1,000,000 to an independent third party. Details of the net liabilities of these subsidiaries as at the date of disposal were as follows:

	HK$'000
NET LIABILITIES DISPOSED OF	
Trade and other receivables	1,144
Deposits and prepayments	11
Other payables	(1,534)
Net liabilities disposed of	(379)
Gain on disposal	1,379
Total consideration	1,000
Satisfied by:	
Cash consideration	1,000
Net cash inflow arising on disposal:	
Cash consideration	1,000

During the year, the above disposed subsidiaries contributed HK$1,000,000 to the Group's investing activities.

35. DISPOSAL OF SUBSIDIARIES *(Continued)*

On 10th May, 2007, the Group entered into a sale and purchase agreement to dispose of its subsidiary, Max Target Holdings Limited, which was engaged in holding of a club debenture, at a consideration of HK$800,000 to a related party. Details of the net liabilities of this subsidiary as at the date of disposal were as follows:

	HK$'000
NET LIABILITIES DISPOSED OF	
Club debenture	330
Trade and other receivables	109
Bank balances and cash	42
Trade and other payables	(632)
Net liabilities disposed of	(151)
Gain on disposal	951
Total consideration	800
Satisfied by:	
Cash consideration	800
Net cash inflow arising on disposal:	
Cash consideration	800
Bank balances and cash disposed of	(42)
	758

During the year, the above disposed subsidiary contributed HK$758,000 to the Group's investing activities.

36. RELATED PARTY TRANSACTIONS

(1) On 16th December, 1995, a leasing agreement was entered into between Shanghai SAC, a subsidiary of the Group, and Shanghai Cement Factory ("SCF"), a minority shareholder, which held a 40% interest in Shanghai SAC. According to the leasing agreement, Shanghai SAC should pay to SCF an annual leasing fee which consisted of (1) a fixed asset leasing fee mainly based on the depreciation of the property, plant and equipment leased under the leasing agreement plus a mark-up of about 10%; and (2) an usage fee mainly based on the volume of raw materials off-load and the applicable unit rate for the relevant raw materials agreed by the parties when the leasing agreement was signed. The underlying assets are also used by SCF. During the year ended 31st December, 2007, Shanghai SAC paid a total leasing fee of HK$6,631,000 (2006: HK$5,769,000) to SCF.

(2) In July 2002, the Company entered into a master agreement with Tian An China Investments Company Limited ("Tian An"), a former ultimate holding company, for a reciprocal arrangement of guarantee. Accordingly, the Group provides guarantees to secure certain borrowings of subsidiaries of Tian An (the "Tian An Group") in the PRC and Tian An Group provides guarantees to secure certain borrowings of the Group in the PRC. A guarantee fee of 1% per annum on the principal amount of the guarantees is chargeable between the relevant parties. At 31st December, 2007, Shanghai SAC did not provide guarantees to secure borrowings of the Tian An Group in the PRC (2006: nil) and the Tian An Group provided guarantees of HK$10,638,000 (2006: HK$49,105,000) to secure borrowings of Shanghai SAC in the PRC. Details of the guarantee fee income and expenses are set out in the table below. During the year, two directors of the Company, who were directors of Tian An, resigned on 4th July, 2007.

36. RELATED PARTY TRANSACTIONS *(Continued)*

In addition, the Group has entered into the following related party transactions:

		2007 HK$'000	2006 HK$'000
(i)	**Former fellow subsidiaries** (Note)		
	Proceed on disposal of a subsidiary (note 35)	**800**	–
	Interest charge	**501**	1,026
	Management fee expenses	**356**	724
	Guarantee fee income	**–**	213
	Guarantee fee expenses	**181**	363
	Sales of ceramic tiles, granite and marble products	**–**	950
(ii)	**Subsidiaries of a company which has significant beneficial interests in the Company's former ultimate holding company** (Note)		
	Insurance expense	**74**	165
	Interest charge	**92**	500
	Rental expenses, air conditioning charges, repairs and maintenance	**218**	531
(iii)	**A subsidiary of a substantial shareholder with significant influence over the Group**		
	Administrative expenses	**777**	–
(iv)	**Company which has significant beneficial interests in the Company's former ultimate holding company** (Note)		
	Management fee expenses	**495**	935
(v)	**Former ultimate holding company** (Note)		
	Guarantee fee expense	**478**	82
(vi)	**Key management compensation**		
	Short-term employee benefits	**3,447**	2,730
	Post employment benefits	**121**	89

Note: The transactions occurred from 1st January, 2007 to 28th June, 2007, before Tian An ceased to be the Group's ultimate holding company.

36. RELATED PARTY TRANSACTIONS *(Continued)*

Certain key management personnel of the Group received remuneration from a company, or a wholly-owned subsidiary of such company, which has significant beneficial interests in the Company's former ultimate holding company. Such company provided management services to the Group and charged the Group a fee, which is included in management fee as disclosed in part (iv) of this note, for services provided by those personnel as well as others who are not key management personnel of the Group.

The above-mentioned management fee commenced to be charged in 2005 and is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the above key management personnel. The total of such apportioned amounts, which have been included in the key management personnel compensation above, is HK$114,000 (2006: HK$579,000).

36. RELATED PARTY TRANSACTIONS *(Continued)*

As at 31st December, 2007, the Group has the following significant balances with related parties.

	Notes	**2007** **HK$'000**	2006 HK$'000
Current assets			
Amount due from a minority shareholder	a	**1,281**	–
Amounts due from fellow subsidiaries	a	**–**	1,927
Current liabilities			
Dividends payable to a minority shareholder	c	**738**	–
Amount due to former ultimate holding company	c	**12,841**	7,937
Amount due to a fellow subsidiary	b	**–**	9,603
Amount due to a minority shareholder	c	**–**	4,974
Amounts due to related companies	c	**777**	935
Non-current liabilities			
Amount due to a minority shareholder	d	**400**	494
Amounts due to fellow subsidiaries	d	**–**	203

Notes:

(a) The balances are unsecured, non-interest bearing and are expected to recover within six months from the balance sheet date.

(b) Balance at 31st December, 2006 represented a loan of HK$9,000,000 and its related interest. The loan was borrowed from a subsidiary of Tian An for operating purpose and was unsecured, interest bearing at Hong Kong prime rate plus 3.5% per annum and repayable within one year with effective interest rate of 11.25% per annum.

(c) The balance was unsecured, non-interest bearing and was repayable on demand.

(d) The amounts due to fellow subsidiaries and the amount due to a minority shareholder are unsecured, interest-free and are repayable by the expiry of the joint venture agreement and the amounts are therefore shown as non-current. The effective interest rate of these amounts is 5.58% per annum.

Details of other balances and transactions with related parties at the balance sheet date are disclosed in the consolidated balance sheet, notes 19 and 20.

37. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date includes:

	Notes	**2007** **HK$'000**	2006 HK$'000
Non-current assets			
Unlisted investments		**87,422**	63,842
Amounts due from subsidiaries less allowances	a	**379,452**	245,359
Loan receivables		**52,556**	–
		519,430	309,201
Current assets			
Other receivables and prepayments		**281**	293
Amount due from a subsidiary		**935**	–
Bank balances and cash		**5,266**	89
		6,482	382
Current liabilities			
Other payables		**5,242**	914
Amount due to former ultimate holding company		**59**	1,388
Amounts due to subsidiaries		**16,202**	9,655
Borrowings due within one year		**12,500**	12,500
		34,003	24,457
Net current liabilities		**(27,521)**	(24,075)
Total assets less current liabilities		**491,909**	285,126
Capital and reserves			
Share capital		**182,349**	182,349
Reserves	b	**89,560**	102,777
		271,909	285,126
Non-current liability			
Borrowings due after one year		**220,000**	–
		491,909	285,126

37. BALANCE SHEET INFORMATION OF THE COMPANY *(Continued)*

Particulars of the principal subsidiaries of the Company at 31st December, 2007 are set out in note 38 to the consolidated financial statements.

None of the subsidiaries had any debt securities outstanding at the end of the year or any time during the year.

Notes:

(a) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors of the Company, the amounts will not be repayable in the next twelve months from the balance sheet date and the amounts are therefore shown as non-current.

(b) Reserves of the Company

	Capital redemption reserve	**Contributed surplus**	**Retained profits**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2006	918	65,409	42,236	108,563
Loss for the year	–	–	(5,786)	(5,786)
At 31st December, 2006 and **at 1st January, 2007**	**918**	**65,409**	**36,450**	**102,777**
Loss for the year	**–**	**–**	**(13,217)**	**(13,217)**
At 31st December, 2007	**918**	**65,409**	**23,233**	**89,560**

The contributed surplus of the Company represents the aggregate of:

(i) the difference between the consolidated shareholders' funds of All Gold Investments Limited and its subsidiaries at the date on which the corporate reorganisation became effective and the nominal amount of the Company's shares issued under the reorganisation; and

(ii) a net balance arising from reduction of issued share capital and share premium after setting off accumulated losses of the Company during 2002 and after deducting the accumulated dividend paid from contributed surplus to shareholders.

37. BALANCE SHEET INFORMATION OF THE COMPANY *(Continued)*

Notes: *(Continued)*

(b) Reserves of the Company *(Continued)*

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders are as follows:

	2007	2006
	HK$'000	HK$'000
Contributed surplus	**65,409**	65,409
Retained profits	**23,233**	36,450
	88,642	101,859

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Except Sino Able Investments Limited was incorporated in 2007, the particulars of the principal subsidiaries at 31st December, 2007 and 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operations	Issued and fully paid share capital/ registered capital	Proportion of issued share capital/registered capital held by the company		Principal activities
				Directly	Indirectly	
				%	%	
All-cement Limited	The British Virgin Islands	Hong Kong	Ordinary US$1	–	100	Investment holding
All-Shanghai Inc.	The British Virgin Islands	Hong Kong	Ordinary US$15,376,500	–	83.3	Investment holding
SAC Enterprises Limited	Hong Kong	Hong Kong	Ordinary HK$1,000	100	–	Provision of management services to group companies
SAC Finance Company Limited	Hong Kong	Hong Kong	Ordinary HK$100	–	100	Provision of financing services to group companies
Shandong Shanghai Allied Cement Co., Ltd.	The PRC (Note a)	The PRC	Registered capital US$1,000,000	–	100	Manufacture and distribution of cement and clinker
Shanghai Allied Cement Co., Ltd.	The PRC (Note b)	The PRC	Registered capital US$24,000,000	–	60	Manufacture and distribution of cement and clinker
Shanghai Allied Cement Holdings Limited	Hong Kong	Hong Kong	Ordinary HK$10,000,000	100	–	Investment holding

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Place of operations	Issued and fully paid share capital/ registered capital	Proportion of issued share capital/registered capital held by the company Directly %	Indirectly %	Principal activities
Shandong Allied Wangchao Cement Limited	The PRC (Note b)	The PRC	Registered capital US$9,200,000	–	95	Manufacturing and distribution of cement and clinker
Sino Able Investments Limited	The British Virgin Islands	Hong Kong	Registered capital US$1	100	–	Investment holding
深圳市賽華順升建材有限公司 ("SZ TRIWA")	The PRC (Note c)	The PRC	Registered capital RMB1,500,000	–	–	Investment holding
北京上聯首豐建材有限公司	The PRC (Note d)	The PRC	Registered capital RMB4,000,000	–	–	Manufacture and distribution of slag powder

Notes:

(a) The subsidiary is a wholly owned enterprise with foreign capital.

(b) The subsidiaries are non-wholly owned Sino-foreign joint venture.

(c) The Company does not have any equity interest in the registered capital of SZ TRIWA as it is owned by three individuals. Pursuant to certain agreements among SZ TRIWA, the owners of SZ TRIWA and the Group, the owners of SZ TRIWA agreed to assign the power to appoint and remove all the members of the board of directors of and to govern the financial and operating policies of SZ TRIWA to the Group and to transfer all results of SZ TRIWA to the Group. Accordingly, SZ TRIWA is treated as a subsidiary of the Company and its results, assets and liabilities are consolidated with those of the Group. The registered capital of SZ TRIWA was contributed by the Group.

(d) The subsidiary is a non-wholly owned subsidiary of SZ TRIWA, of which 80% registered capital was contributed by the Group.

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affect the results of the Group for the year or form 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.

For the year ended 31st December, 2007

RESULTS

	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
Turnover	382,879	377,844	349,437	386,511	**434,300**
Profit (loss) before taxation	95,681	36,348	(32,120)	14,406	**(16,595)**
Taxation (charge) credit	(13,080)	(12,750)	(420)	(7,212)	**1,400**
Profit (loss) for the year	82,601	23,598	(32,540)	7,194	**(15,195)**
Profit (loss) attributable to:					
Equity holders of the Company	50,023	10,414	(35,233)	387	**(21,658)**
Minority interests	32,578	13,184	2,693	6,807	**6,463**
	82,601	23,598	(32,540)	7,194	**(15,195)**

ASSETS AND LIABILITIES

	2003 HK$'000	2004 HK$'000	2005 HK$'000	2006 HK$'000	**2007** **HK$'000**
Total assets	698,174	827,030	885,135	868,454	**1,133,021**
Total liabilities	(194,728)	(347,188)	(434,673)	(394,714)	**(651,259)**
Total equity	503,446	479,842	450,462	473,740	**481,762**
Minority interests	(164,543)	(159,703)	(159,822)	(173,093)	**(186,677)**
Equity attributable to equity holders of the Company	338,903	320,139	290,640	300,647	**295,085**