陸氏

陸氏集團（越南控股）有限公司

LUKS GROUP (VIETNAM HOLDINGS) CO. LTD.

Stock Code: 0366

2008

Annual Report

Contents

Corporate Information

Executive Directors

Luk King Tin
(Chairman and Chief Executive Officer)
Cheng Cheung
Luk Yan
Luk Fung
Fan Chiu Tat, Martin

Independent Non-Executive Directors

Liu Li Yuan
Liang Fang
Tam Kan Wing

Company Secretary

Fan Chiu Tat, Martin, B.Soc.Sc., FCCA, HKICPA

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
ICBC (Asia) Limited
Bank of China (Hong Kong) Limited

Auditors

Ernst & Young

Principal Share Registrar

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business

5th Floor, Cheong Wah Factory Building
39-41 Sheung Heung Road
Tokwawan, Kowloon
Hong Kong

Chairman's Statement

Business Review and Prospects

Global financial markets were devastated by the financial crisis triggered by the sub-prime mortgage's problems and bankruptcy of Lehman Brothers over the last year. Being one of the newly developing markets, Vietnam was inescapable from being affected by the turmoil. Vietnam had been plagued by high inflation rate and widening trade deficit as a result of the overheated economy in the first half of 2008. The Vietnamese government immediately adopted tightening economic measures, including the control of money supply and raising the banks' lending rate to as high as 23% per annum and also, imposing control on the import of non-production related products. However, when the financial crisis hit, the government, fearing that the economy to be deteriorated too drastically, adjusted its policies by reducing the banks' lending rate to 9% per annum on January 2009, with the short term rate (less than one year) being reduced to as low as 6%. Meanwhile, the government also formulated measures to boost infrastructure projects so as to stimulate domestic consumption and to alleviate the effect brought by shrinking foreign investments and export. According to the government's estimate, the GNP growth of Vietnam will be around 6% in 2009.

Vietnam has abundant natural resources, rich farm and sea products and a young population with high consumption power. It is believed that Vietnam will be one of the fastest developing countries that recover from the global financial turmoil. The Group is optimistic to the long-term economic growth of Vietnam and thus will maintain its set principles on investing in Vietnam, but will adjust its pace of investing in according to the situation and development of the local economy.

For the year ended 31 December 2008, the Group recorded a turnover of HK$594,746,000, representing an increase of 12.4% as compared to HK$529,251,000 of last year. Turnover from the cement business was HK$451,994,000 representing a year-on-year increase of 12.5%, whereas turnover from the property investment was HK$134,012,000, representing an increase of 15.0% as compared to last year.

The consolidated net profit attributable to shareholders was HK$312,384,000 for the year, representing an increase of approximately 3.2% when compared to HK$302,640,000 of last year.

Cement Business

For the full year of 2008, the Group achieved 1,274,000 tonnes of total sales in cement and clinkers, representing only a slight increase as compared to last year. The disappointing sales were mainly attributed to the following two factors. First, as a result of the adoption of the government's tightening economic measures aiming to cool down the surging inflation rate in the second half of 2008, the infrastructure projects and thus demand of cement were adversely affected. Second, the raining season in 2008 came earlier and lasted especially long which thus affected the testing and trial production of the Group's new clinkers' production line of 3000 tonnes per day and therefore its commercial production had not been actualised as its original schedule in the 4th quarter of 2008.

Chairman's Statement

In early 2008, the Group set up a joint venture to exploit its own limestone mine, instead of contracting to a third party contractor as did in the past years, which has helped reduce production cost. Besides, the Group has also completed its own cement bags manufacturing plant by the 4th quarter of 2008 and therefore from 2009 onwards, the Group can produce its own cement bags. It not only can reduce cost but also ensure the stable supply of cement bags. Moreover, the Group has also set up a joint venture company for logistics and transportation by the 4th quarter of 2008 and started to handle part of the cement plant's logistics business. The above limestone exploitation, cement bags production and transportation are all important parts of the production cost and thus closely related to the profitability of the cement plant. The Group expects the above measures can help boosting the cement plant's profits in 2009.

In 2009, the Vietnamese government adopted similar measures as other countries to rescue the economy from the financial crisis, including to boost domestic consumption and to accelerate infrastructure projects such as piers and highways. On the other hand, it has strictly controlled the import of clinkers into Vietnam. According to the estimate of the Ministry of Construction, the national demand of cement will reach 45 million tonnes in 2009, with a year-on-year growth rate of 11-15%.

Starting 2009, the Group's new clinkers production line of 3000 tonnes per day has been in normal commercial operation. The original plan for a clinkers' grinding plant in Long An Province in the suburb of Hochiminh City has been delayed due to problems in removal and relocation of local residence. Yet, the Group has already invested in another clinkers' grinding plant in Ninh Thuan Province, which is expected to commence operation by July this year. The cement plant will have to sell part of its clinkers in the first half of 2009, whereas in the second half, the sales of cement will increase after the commencement of the clinkers' grinding plant in Ninh Thuan Province. The Group is optimistic to the growth of sales and profits of the cement plant and expects to produce about 1.9 million tonnes of cement in 2009.

On the other hand, the Group has temporarily withhold its original plan of investing in another clinkers' production line of 5000 tonnes per day in this year, as a result of the occurrence of the financial crisis in October 2008. The Group will consider resuming the project when the global and local economic situations become more stable and clear.

Saigon Trade Centre and Property Investment

As a result of the dramatic deterioration of the global investment environment, Vietnam's foreign investments frenzy in the first half of 2008 was seen cooling down in a drastic pace. Foreign investors were more on a wait and see attitude. The leasing situation of the Group' Saigon Trade Center was thus being affected. The occupancy rate has dropped from 96% as at mid-2008 to 90% as at the year-end. Yet, for the full year of 2008, the total rental income still recorded a growth of 18% as compared to last year.

The occupancy rate is still under pressure in 2009, but is expected to stay above 85%. On the other hand, the rental rate for renewal leasing contracts still has room for upward adjustment, which therefore shall be able to compensate part of the decrease in the total rental income resulted from a drop in occupancy rate.

On the other hand, as most of the planned and under-constructed office buildings have either been delayed or suspended for development, the Saigon Trade Centre should be able to benefit from a longer term of view.

The rental income of the Group's other investment properties located in Hong Kong has been stable during the year, whereas the investment properties in the PRC recorded a drop in occupancy rate for the year of 2008.

Property Development

Last year, the property market in Vietnam was in frenzy and this year it was cooled down as a result of the financial crisis. The property market of Hochiminh City in Vietnam is still in its infancy stage, for which supply of property is very limited and thus its potential for long-term development is huge. Currently, it may be a good timing for the accumulation of land reserve.

In August 2008, the Group signed a cooperation agreement with Trans Asia Viet Corporation of Vietnam, to jointly develop a piece land for residential purpose in Binh Chanh District. Total gross floor areas to be developed are 558,000 sqm. Seeing the worsening of the market situation, the Group has successfully negotiated with the Vietnamese partner to reduce the total land cost from approximately HK$633 million to HK$507 million (the Group's share of 75% or approximately HK$380 million), representing a reduction of the GFA land cost from HK$1,135 to HK$908 per sqm.

Besides, the Group's another 85% owned residential project in Binh Thanh District, which has total gross floor areas of 110,000 sqm, is still in the process of the government's applications and procedures. The first phase of the development is expected to start within this year.

The Mongolia's economic situation and development is in a large extent being affected by the fluctuation of the demand and prices of global mineral resources. The Group's investment in a property project in Ulanbaatar, which comprises mainly villas' development, has been slowed down and its pace of development will be adjusted depending on the market conditions.

Traditional Chinese Medicine ("TCM") Business

The Group's TCM business has been focused mainly on anti-ageing products. Currently, its clinical studies in the Clinical Research Center of Hong Kong University and in the mainland China are still ongoing. For the year ended 31 December 2008, the operating loss of the TCM business before deducting minority interest was HK$5,371,000 (2007: HK$2,593,000).

Dividend

During the year, the Group recorded a continuing stable cash inflow from its normal operating business. And the Group is also required to retain cash for investment purpose. The board of directors recommended to distribute a final dividend of HK6 cents per shares to the shareholders and together with the interim dividend of HK4 cents per share already distributed, the total dividend for the full year of 2008 will be HK10 cents per share.

Chairman's Statement

Appreciation

I would like to take this opportunity to extend my gratitude to my fellow directors, management and staff members for their contributions to the Group and to our shareholders for their support, confidence and recognition to the Group's strategies and direction.

Luk King Tin
Chairman

Hong Kong
15 April 2009

Management Discussion and Analysis

Financial Review

Liquidity and Financial Resources

The Group's cash and bank balances as at 31 December 2008 amounted to HK$533,760,000 (31 December 2007: HK$852,108,000). The Group's total borrowings amounted to HK$477,749,000 (31 December 2007: HK$303,448,000), of which HK$182,548,000 (31 December 2007: HK$122,023,000) was repayable within 1 year and HK$295,201,000 (31 December 2007: HK$181,425,000) was repayable from 2 to 5 years.

The percentage of the Group's borrowings denominated in HK$, US$ and Vietnamese Dong ("VND") were 15.4%, 39.5% and 45.1% respectively. Of the total borrowings, about 23% were at fixed interest rates.

The gearing ratio, expressed as the percentage of long-term debt to equity, was 13% as at 31 December 2008 (31 December 2007: 8%).

Share Capital

During the year, the Company has repurchased a total number of 59,782,000 shares of the Company's own shares in the Hong Kong Stock Exchange, resulting in a significant decrease in the Company's issued share capital as at the year-end of 2008.

Besides, for the year ended 31 December 2008, a total number of 1,250,000 share options have been exercised resulting in the issuance of 1,250,000 new shares of the Company. As at 31 December 2008, there were 5,520,000 outstanding share options of the Company yet to be exercised.

As at 31 December 2008, the total number of issued shares of the Company was 514,953,418 shares (as at 31 December 2007: 573,485,418 shares).

Significant investments held

As at 31 December 2008, the Group has no significant investment held.

Employees and Remuneration Policy

As at 31 December 2008, the Group had approximately 1,200 employees. Most of them were in Vietnam. The total staff cost (excluding directors remuneration) was approximately HK$40,125,000 for the year ended 31 December 2008 (31 December 2007: HK$31,209,000). The Company operates a share options scheme and options are granted to certain employees in order to encourage their contribution to the Group. There was no significant change in the Group's remuneration policy as compared to last financial year.

Management Discussion and Analysis

Details of charges

As at 31 December 2008, the Group pledged certain fixed assets at a net book value of HK$366,267,000, prepaid land lease payments at a net book value of HK$18,282,000 and certain investment properties at a carrying value of HK$112,000,000. In addition, bank deposits of HK$65,660,000 of the Group have been pledged to bank for the purchase of fixed assets.

Exposure to fluctuations in exchange rates and related hedges

The Group has exposed to the risk of exchange rate's fluctuation in VND for its investments in Vietnam. The exchange rate of VND to USD was comparatively volatile throughout the accounting period, with a devaluation of 8.9% as at 31 December 2008 when compared to the rate as at 31 December 2007. During the year, the Company has entered into several interest rates swap contracts to hedge for the interest difference from the high interest rate of VND in comparing with the low interest rate of USD. As at 31 December 2008, the swap contracts were valuated at HK$244,000. Apart from that, the Company has not employed any hedged instrument to hedge against the exchange risk. In order to minimise exposure to the exchange risk, most of the expenditure of the cement plant and the Saigon Trade Centre are in VND. For the Saigon Trade Centre, over 90% of the leasing contracts are denominated in USD.

Details of contingent liabilities

As at 31 December 2008, the Group has no significant contingent liability (31 December 2007: Nil).

Corporate Governance Practices

The Company is committed to attaining good standard of corporate governance practices with an emphasis on a quality Board, better transparency and effective accountability system.

Following the issue of the Code on Corporate Governance Practices, as set out in Appendix 14 to the Hong Kong Listing Rules, the Company has carefully reviewed and considered its provisions, and carried out a detailed analysis on the corporate governance practices of the Company against the requirements of the Code. Throughout the financial year ended 31 December 2008, except for the requirements that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual (code provision A.4.1) and all directors should retire and rotate for at least every three years (code provision A.4.2), the Company has complied with all code provisions of the Code on Corporate Governance Practices.

Currently, the roles of Chairman and Chief Executive Officer of the Company are performed by Mr. Luk King Tin. Mr. Luk is the founder of the Company, has been the Chairman and the Chief Executive Officer of the Company and in charge of the overall management of the Company. The Company considers that the combination of the roles of Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, checks and balances exist so that the interests of the shareholders are adequately and fairly represented.

According to the Company's Bye-laws, the Chairman of the Board and the Managing Director of the Company were not subject to retirement by rotation, which thus constitutes a deviation from the code provision A.4.2. Since the Chairman is responsible for the formulation and implementation of the Company's strategies, which is essential to the stability of the Company's business and thus the Board considers that the deviation is acceptable.

The Board of Directors

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, regulating internal controls and financial management, and supervising the management's performance while the day-to-day operations and management are delegated by the Board to the senior management of the Company. The Board operates in accordance with established practices (including those relating to reporting and supervision), and is directly responsible for formulating the Company's corporate governance guidelines.

The Board currently comprises 8 directors, namely Mr. LUK King Tin (the Chairman), Mdm. CHENG Cheung, Mr. LUK Yan, Mr. LUK Fung and Mr. FAN Chiu Tat, Martin as executive directors, Mr. LIANG Fang, Mr. LIU Li Yuan and Mr. TAM Kan Wing as independent non-executive directors. Their biographical details are presented on page 16 of this annual report. The Company and its directors (including independent non-executive directors) have not entered into any service contract with a specified length of service. All directors, except the Chairman, are subject to retirement by rotation and re-election at annual general meetings of the Company at least every three years. The Company has received a confirmation of independence from each of the independent non-executive directors, namely Mr. LIANG Fang, Mr. LIU Li Yuan and Mr. TAM Kan Wing and considers them to be independent. The Company has received acknowledgements from the directors of their responsibility for preparing the financial statements and a statement by the auditors of the Company about their reporting responsibilities.

Corporate Governance Practices

The Board convened five meetings during the financial year ended 31 December 2008. Mr. LUK King Tin, Mdm. CHENG Cheung, Mr. LUK Yan, Mr. LUK Fung and Mr. FAN Chiu Tat, Martin attended all five board meetings while Mr. LIANG Fang, Mr. LIU Li Yuan and Mr. TAM Kan Wing attended two board meetings.

Appointment, Re-election and Removal of Directors

The Board is responsible for the appointment and removal of Directors.

According to the Company's Bye-laws, at each annual general meeting, one-third of the Directors shall retire from office by rotation. If the number of Board members is not a multiple of three, then the number nearest to but not greater than one-third shall retire by rotation. Retired Directors are eligible for re-election at each annual general meeting.

According to the Company's Bye-laws, any director in his first year of appointment is subject to re-election by shareholders at the forthcoming annual general meeting.

All Independent Non-executive Directors are appointed for a specific term of one year and are subject to re-election at each annual general meeting.

The Board currently has two principal board committees, which are the audit committee and the remuneration committee.

Audit Committee

The Company has established the audit committee, which is comprised solely of independent non-executive directors, namely Mr. LIANG Fang, Mr. LIU Li Yuan and Mr. TAM Kan Wing. All members of our audit committee have many years of finance and business management experience and expertise. The audit committee's primary responsibilities include, among other things, making recommendation to the board of directors on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit procedure in accordance with applicable standards, developing and implementing policies on the engagement of external auditors to provide non-audit services, monitoring the integrity of financial statements of the Company and the Company's report and financial statements and overseeing the Company's financial reporting system and internal control procedures.

In 2008, the audit committee met twice, and mainly reviewed the integrity of the Company's financial statements, annual report and accounts, interim report and the significant financial reporting judgements contained in such financial statements and reports, discussed and approved the budgets and remuneration of, and services provided by, the external auditors, reviewed the Company's internal audit procedures and reports, reviewed and the compliance situation with relevant laws and regulations. All members attended all meetings.

Remuneration Committee

The Company has established the remuneration committee, which is comprised of Mr. LIANG Fang and Mr. LIU Li Yuan being independent non-executive directors of the Company and Mr. LUK King Tin, the Chairman of the Company. The primary responsibilities of the remuneration committee include, among other things, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board on the remuneration of non-executive directors, reviewing and approving performance-based remuneration, ensuring that no director or any of his associates is involved in deciding his own remuneration, making recommendations to the board of directors on the Company's policy and structure for remuneration of employees, including salaries, incentive schemes and other stock plans. In 2008, the remuneration committee met twice. All members attended the meeting.

At present, remunerations of the senior management of the Company mainly consist of fixed monthly salary. Certain senior management is also awarded with a performance-linked annual bonus, which is tied to the attainment of key performance indicators targets. Share options were also granted to executive directors and senior management of the Company during the year. The remuneration of non-executive directors is determined with reference to the prevailing market conditions and workload of being non-executive directors and members of the board committees of the Company.

Internal Control and Management

The Board recognises its responsibility for maintaining an adequate system of internal control to safeguard the Group's assets and shareholders' interests.

Internal control, including a defined management structure with limits of authority, is designed to help achieve business objectives, safeguard assets against unauthorised use, maintain proper accounting records for the provision of reliable financial information for internal use or for publication. The system is set up to provide reasonable, but not absolute, assurance against material mis-statement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

Management maintains and monitors the system of controls on an ongoing basis.

During 2008, based on the evaluations made by management, the Audit Committee was satisfied that nothing has come to its attention to cause the Audit Committee to believe that the system of internal control is inadequate, and there is an ongoing process to identify, evaluate and manage significant risks faced by the Group.

Corporate Governance Practices

Communication with Shareholders

The Group discloses relevant information to shareholders through the Group's website, annual report and financial statements, the interim report, periodic company announcements as well as the Annual General Meeting ("AGM"). The section under "Management Discussion and Analysis" of the annual reports facilitate the shareholders' understanding of the Company's activities. The AGM allows the Directors to meet and communicate with shareholders.

The Company's financial statements and each of the required disclosure of information are dispatched within the prescribed period imposed by laws and regulations.

Directors' Securities Transactions

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") to regulate the directors' securities transactions. All directors have confirmed, following enquiry by the Company, that they have complied with the Model Code during the period between 1 January 2008 and 31 December 2008.

Auditors' Remuneration

The Company has engaged Ernst & Young as statutory auditors of the Company. For the year ended 31 December 2008, amounts of HK$1,618,000 and HK$93,700 were paid/payable to Ernst & Young for their statutory audit service, and tax and consultancy services respectively.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2008.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 108.

An interim dividend of HK4 cents per ordinary share was paid on 16 October 2008. The directors recommend the payment of a final dividend of HK6 cents per ordinary share in respect of the year to shareholders on the register of members on 15 May 2009. This recommendation has been incorporated in the financial statements as an allocation of contributed surplus within the equity section of the balance sheet.

Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years is set out on page 110. This summary does not form part of the audited financial statements.

Property, plant and equipment and investment properties

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 109.

Share capital and share options

Details of movements in the Company's share capital and share options during the year are set out in notes 34 and 35 to the financial statements.

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 existing shareholders.

Report of the Directors

Purchase, redemption or sale of listed securities of the Company

During the year, the Company purchased certain of its shares on the Hong Kong Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of those transactions are as follows:

Month		Number of shares repurchased	Price per share Highest	Price per share Lowest	Total price paid
			HK$	HK$	HK$'000
January	2008	3,126,000	8.30	6.59	23,463
February	2008	1,482,000	7.88	7.60	11,354
March	2008	580,000	7.36	7.08	4,206
April	2008	2,382,000	7.37	6.88	16,992
May	2008	3,140,000	7.04	6.11	20,454
June	2008	10,256,000	5.92	3.68	48,280
July	2008	568,000	3.69	3.54	2,092
September	2008	14,452,000	3.23	2.76	44,686
October	2008	14,730,000	2.97	1.74	30,973
November	2008	7,588,000	1.81	1.63	13,290
December	2008	1,478,000	2.11	2.00	3,058
Total		59,782,000			218,848

The purchase of the Company's shares during the year was effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 36(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$382,816,000, of which approximately HK$30,684,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of approximately HK$757,648,000 may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group made charitable contributions totalling approximately HK$100,000. (2007: HK$489,000).

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 35% of the total sales for the year and sales to the largest customer included therein amounted to approximately 21%. Purchases from the Group's five largest suppliers accounted for approximately 32% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 15%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

Directors

The directors of the Company during the year were:

Executive directors:

Luk King Tin *(Chairman and Chief Executive Officer)*
Cheng Cheung
Luk Yan
Luk Fung
Fan Chiu Tat, Martin

Independent non-executive directors:

Liu Li Yuan
Liang Fang
Tam Kan Wing

In accordance with clause 87 of the Company's bye-laws, Mr. Luk Yan and Mr. Fan Chiu Tat, Martin will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors, Mr. Liu Li Yuan, Liang Fang and Tam Kan Wing, are appointed for a period of one year and, being eligible, will offer themselves for re-election at the forthcoming general meeting.

The Company has received annual confirmations of independence from Mr. Liu Li Yuan, Liang Fang and Tam Kan Wing and still considers them to be independent.

Report of the Directors

Directors' and senior management's biographies

Mr. Luk King Tin, aged 71, is the chairman of the board and the Chief Executive Officer of the Company. Mr. Luk is also the founder of the Group and has been with the Group for over 30 years. He is responsible for formulating the Group's strategies and policies.

Madam Cheng Cheung, aged 68, is an executive director of the Company. Madam Cheng is the wife of Mr. Luk King Tin and has been with the Group for over 30 years. She is mainly responsible for the finance, human resources and administrative functions of the Group.

Mr. Luk Yan, aged 44, is an executive director of the Company. Mr. Luk is a son of Mr. Luk King Tin and Madam Cheng Cheung. He is now responsible for the Group's property investment and management in Vietnam. He has been with the Group for 19 years.

Mr. Luk Fung, aged 40, is an executive director of the Company. Mr. Luk is a son of Mr. Luk King Tin and Madam Cheng Cheung. He has years of experience in the financial services industry prior to joining the Group. Mr. Luk graduated from Simon Fraser University in Canada. He is responsible for the development of the traditional Chinese medicine business of the Group. He has been with the Group for 9 years.

Mr. Fan Chiu Tat, Martin, aged 42, is an executive director and the company secretary of the Company. He graduated from The University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Fan is also the financial controller of the Company. He has been with the Group for 19 years.

Mr. Liu Li Yuan, aged 57, is an independent non-executive director of the Company. Mr. Liu is a graduate with a diploma from the Faculty of Law of the University of Beijing. He is currently a managing director of a property investment and management company in Mainland China.

Mr. Liang Fang, aged 57, is an independent non-executive director of the Company. Mr. Liang is a holder of an MBA degree from the Massachusetts Institute of Technology of the United States of America. He has been working in the IT business for a number of years. Mr. Liang is currently the Managing Director of Joint Technology Development Limited.

Mr. Tam Kan Wing, aged 43, is an independent non-executive director of the Company. Mr. Tam is the sole proprietor of a CPA firm in Hong Kong. He is a holder of a bachelor's degree of Arts in Accountancy from the City University of Hong Kong. He is also a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has more than 20 years of experience in the auditing, taxation, finance and accounting fields.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' and chief executive's interests and short positions in shares and underlying shares

At 31 December 2008, the interests and short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept 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 positions in ordinary shares of the Company:

		Number of shares held, capacity and nature of interest				
Name of director	Notes	**Directly beneficially owned**	**Through spouse or minor children**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Luk King Tin	(a)	189,552,399	—	62,684,958	252,237,357	48.98
Cheng Cheung	(b)	19,276,800	—	36,912,027	56,188,827	10.91
Luk Yan	(c)	3,070,800	174,000	—	3,244,800	0.63
Luk Fung		3,129,600	—	—	3,129,600	0.61
Fan Chiu Tat, Martin		1,500,000	—	—	1,500,000	0.29
		216,529,599	174,000	99,596,985	316,300,584	61.42

Report of the Directors

Directors' and chief executive's interests and short positions in shares and underlying shares (Continued)

Long positions in shares of an associated corporation:

Name of director	Note	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Luk King Tin and Luk Fung	(d)	Vigconic International (Holdings) Limited ("VI")	Company's subsidiary	2,462,402	Through controlled corporation	25

Notes:

(a) Mr. Luk King Tin had a beneficial interest in KT (Holdings) Limited, which held 62,684,958 shares of the Company at the balance sheet date.

(b) Madam Cheng Cheung had a beneficial interest in CC (Holdings) Limited, which held 36,912,027 shares of the Company at the balance sheet date.

(c) Mr. Luk Yan had a family interest, which held 174,000 shares of the Company at the balance sheet date.

(d) Mr. Luk King Tin and Luk Fung had a beneficial interest in Vigconic Biotechnology Company Limited, which held 2,462,402 shares of US$1 each of VI at the balance sheet date.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2008, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

Save as disclosed in the section "Share option scheme" in note 35 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Share option scheme

The directors have estimated the values of the share options granted during the year, calculated using the Black-Scholes option pricing model as at the date of grant of the options:

Grantee	Number of options granted during the year	Theoretical value of share options HK$
Employees other than directors	100,000	117,245

The Black-Scholes option pricing model is a generally accepted method of valuing options. The significant assumptions used in the calculation of the values of the share options are set out in note 35 to the financial statements. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of share options calculated using the Black-Scholes option pricing model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Report of the Directors

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

At 31 December 2008, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
KT (Holdings) Limited	Directly beneficially owned	62,684,958	12.17
CC (Holdings) Limited	Directly beneficially owned	36,912,027	7.17

Save as disclosed above, as at 31 December 2008, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Luk King Tin
Chairman

Hong Kong
15 April 2009

Independent Auditors' Report

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the shareholders of Luks Group (Vietnam Holdings) Company Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Luks Group (Vietnam Holdings) Company Limited set out on pages 23 to 108, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 financial statements are free from material misstatement.

Independent Auditors' Report

Auditors' responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the 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 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit 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.

Ernst & Young
Certified Public Accountants

Hong Kong
15 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
REVENUE	5	**594,746**	529,251
Cost of sales		**(274,677)**	(252,273)
Gross profit		**320,069**	276,978
Other income and gains	5	**32,846**	21,636
Fair value gains on investment properties, net		**255,780**	207,192
Selling and distribution costs		**(41,436)**	(49,626)
Administrative expenses		**(98,668)**	(78,311)
Other expenses		**(30,182)**	(4,954)
Finance costs	7	**(21,868)**	(14,688)
Share of profits and losses of jointly-controlled entities		**(897)**	(2,107)
Share of profits and losses of associates		**(2,422)**	—
PROFIT BEFORE TAX	6	**413,222**	356,120
Tax	10	**(103,469)**	(56,218)
PROFIT FOR THE YEAR		**309,753**	299,902
Attributable to:			
Equity holders of the parent	11	**312,384**	302,640
Minority interests		**(2,631)**	(2,738)
		309,753	299,902
DIVIDENDS	12		
Interim		**21,788**	17,199
Proposed final		**30,684**	28,427
		52,472	45,626
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**56.5 cents**	55.4 cents
Diluted		**56.4 cents**	55.0 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**939,474**	688,552
Investment properties	15	**1,290,968**	1,116,165
Prepaid land lease payments	16	**16,331**	20,144
Goodwill	17	**15,842**	15,842
Interests in jointly-controlled entities	19	**2,975**	2,941
Interests in associates	20	**129,509**	—
Available-for-sale investments	21	**416**	458
Deposits		**77,276**	93,270
Deferred tax assets	33	**—**	47
Total non-current assets		**2,472,791**	1,937,419
CURRENT ASSETS			
Inventories	22	**63,687**	13,917
Trade receivables	23	**28,826**	30,160
Prepayments, deposits and other receivables		**43,736**	43,139
Debt investments at fair value through profit or loss	24	**1,094**	1,094
Derivative financial instruments	26	**244**	—
Pledged deposits	25	**65,660**	8,109
Cash and cash equivalents	25	**468,100**	843,999
Total current assets		**671,347**	940,418
CURRENT LIABILITIES			
Trade payables	27	**70,172**	24,236
Other payables and accruals		**51,899**	66,552
Due to directors	28	**30,802**	92
Due to a related company	29	**1,852**	5,061
Interest-bearing bank and other borrowings	30	**182,548**	122,023
Tax payable		**23,990**	24,914
Total current liabilities		**361,263**	242,878
NET CURRENT ASSETS		**310,084**	697,540
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,782,875**	2,634,959

Consolidated Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**295,201**	181,425
Rental deposits		**36,436**	31,184
Provisions	32	**5,056**	5,044
Deferred tax liabilities	33	**242,781**	161,591
Total non-current liabilities		**579,474**	379,244
Net assets		**2,203,401**	2,255,715
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	34	**5,150**	5,735
Reserves	36(a)	**2,172,882**	2,225,623
Proposed final dividend	12	**30,684**	28,427
		2,208,716	2,259,785
Minority interests		**(5,315)**	(4,070)
Total equity		**2,203,401**	2,255,715

Luk King Tin
Director

Cheng Cheung
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the parent										
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (note 36(a))	Share option reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007		4,999	211,119	663,720	2,138	—	(71,157)	384,338	25,650	1,220,807	(2,092)	1,218,715
Exchange realignment		—	—	—	—	—	13,903	—	—	13,903	—	13,903
Total income and expense recognised directly in equity		—	—	—	—	—	13,903	—	—	13,903	—	13,903
Profit for the year		—	—	—	—	—	—	302,640	—	302,640	(2,738)	299,902
Total income and expense for the year		—	—	—	—	—	13,903	302,640	—	316,543	(2,738)	313,805
Acquisition of a subsidiary		—	—	—	—	—	—	—	—	—	760	760
Equity-settled share option arrangements	35	—	—	—	3,904	—	—	—	—	3,904	—	3,904
Issue of shares	34	736	762,613	—	(1,969)	—	—	—	—	761,380	—	761,380
Final 2006 dividend declared		—	—	—	—	—	—	—	(25,650)	(25,650)	—	(25,650)
Interim 2007 dividend	12	—	—	(17,199)	—	—	—	—	—	(17,199)	—	(17,199)
Proposed final 2007 dividend	12	—	—	(28,427)	—	—	—	—	28,427	—	—	—
At 31 December 2007		5,735	973,732	618,094	4,073	—	(57,254)	686,978	28,427	2,259,785	(4,070)	2,255,715

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the parent										
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (note 36(a))	Share option reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008		5,735	973,732	618,094	4,073	—	(57,254)	686,978	28,427	2,259,785	(4,070)	2,255,715
Exchange realignment		—	—	—	—	—	(100,864)	—	—	(100,864)	—	(100,864)
Total income and expense recognised directly in equity		—	—	—	—	—	(100,864)	—	—	(100,864)	—	(100,864)
Profit for the year		—	—	—	—	—	—	312,384	—	312,384	(2,631)	309,753
Total income and expense for the year		—	—	—	—	—	(100,864)	312,384	—	211,520	(2,631)	208,889
Capital contribution from minority shareholders		—	—	—	—	—	—	—	—	—	1,386	1,386
Final 2007 dividend declared		—	—	69	—	—	—	—	(28,427)	(28,358)	—	(28,358)
Equity-settled share option arrangements	35	—	—	—	4,498	—	—	—	—	4,498	—	4,498
Issue of shares	34	13	2,166	—	(272)	—	—	—	—	1,907	—	1,907
Repurchase of shares	34	(598)	(218,250)	—	—	598	—	(598)	—	(218,848)	—	(218,848)
Interim 2008 dividend	12	—	—	(21,788)	—	—	—	—	—	(21,788)	—	(21,788)
Proposed final 2008 dividend	12	—	—	(30,684)	—	—	—	—	30,684	—	—	—
At 31 December 2008		5,150	757,648*	565,691*	8,299*	598*	(158,118)*	998,764*	30,684	2,208,716	(5,315)	2,203,401

* These reserve accounts comprise the consolidated reserves of HK$2,172,882,000 (2007: HK$2,225,623,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**413,222**	356,120
Adjustments for:			
Finance costs	7	**21,868**	14,617
Share of profits and losses of jointly-controlled entities		**897**	2,107
Share of profits and losses of associates		**2,422**	—
Bank interest income	5	**(15,626)**	(18,137)
Equity-settled share option expense	6	**4,498**	3,904
Fair value gains on investment properties, net		**(255,780)**	(207,192)
Loss/(gain) on disposal of items of property, plant and equipment	6	**235**	(816)
Depreciation	6	**28,439**	32,082
Recognition of prepaid land lease payments	6	**2,009**	2,012
Gain on disposal of a subsidiary	5	**(10,368)**	—
Fair value gains on derivative financial instruments	5	**(244)**	—
Excess over the cost of acquisition of a subsidiary	5	**—**	(213)
Impairment of an interest in an associate	6	**—**	3
Impairment of trade receivables	6	**155**	211
Impairment of available-for-sale investments	6	**—**	199
		191,727	184,897
(Increase)/decrease in inventories		**(49,770)**	5,580
Decrease/(increase) in trade receivables		**1,179**	(5,377)
Increase in prepayments, deposits and other receivables		**(597)**	(22,296)
Increase in trade payables		**45,936**	4,298
Decrease in other payables and accruals		**(14,653)**	(5,455)
Increase in provisions		**82**	138
(Decrease)/increase in an amount due to a related company		**(3,209)**	727
Increase in rental deposits		**5,252**	5,768
Cash generated from operations		**175,947**	168,280
Interest paid		**(21,868)**	(14,617)
Hong Kong profits tax paid		**—**	—
Overseas taxes paid		**(23,156)**	(2,934)
NET CASH INFLOW FROM OPERATING ACTIVITIES		**130,923**	150,729

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		**130,923**	150,729
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**15,626**	18,137
Purchases of items of property, plant and equipment		**(342,776)**	(254,515)
Decrease in a time deposit		**—**	15,600
(Increase)/decrease in pledged deposits		**(57,551)**	12,760
Decrease/(increase) in non-current deposits		**15,994**	(93,270)
Increase in loans to associates		**(130,809)**	(3)
Acquisition of a subsidiary		**—**	(1,421)
Proceeds from disposal of items of property, plant and equipment		**1,183**	2,218
Disposal of a subsidiary	37	**(218)**	—
Additions to investment in associates		**(1,744)**	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(500,295)**	(300,494)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**1,907**	761,380
Repurchase of shares		**(218,848)**	—
New bank loans		**388,576**	267,844
Repayment of bank loans		**(213,893)**	(80,531)
Capital element of finance lease rental payments		**(452)**	(403)
Increase/(decrease) in amounts due to directors		**30,710**	(809)
Dividends paid		**(50,146)**	(42,849)
NET CASH (OUTFLOW)/ INFLOW FROM FINANCING ACTIVITIES		**(62,146)**	904,632
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(431,518)**	754,867
Cash and cash equivalents at beginning of year		**843,999**	90,162
Effect of foreign exchange rate changes, net		**55,619**	(1,030)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**468,100**	843,999
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**135,905**	320,606
Non-pledged time deposits with original maturity of less than three months when acquired	25	**332,195**	523,393
		468,100	843,999

Balance Sheet

31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**148**	203
Interests in subsidiaries	18	**959,418**	905,116
Total non-current assets		**959,566**	905,319
CURRENT ASSETS			
Prepayments		**1,630**	1,013
Debt investments at fair value through profit or loss	24	**1,094**	1,094
Pledged deposits	25	**65,660**	8,109
Cash and cash equivalents	25	**201,258**	577,985
Total current assets		**269,642**	588,201
CURRENT LIABILITIES			
Other payables and accruals		**6,213**	1,620
Interest-bearing bank and other borrowings	30	**21,313**	8,400
Due to directors	28	**87**	92
Total current liabilities		**27,613**	10,112
NET CURRENT ASSETS		**242,029**	578,089
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,201,595**	1,483,408
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**43,389**	30,267
Provisions	32	**3,695**	—
Total non-current liabilities		**47,084**	30,267
Net assets		**1,154,511**	1,453,141
EQUITY			
Issued capital	34	**5,150**	5,735
Reserves	36(b)	**1,118,677**	1,418,979
Proposed final dividend	12	**30,684**	28,427
Total equity		**1,154,511**	1,453,141

Luk King Tin
Director

Cheng Cheung
Director

Notes to Financial Statements

31 December 2008

1. Corporate Information

Luks Group (Vietnam Holdings) Company Limited is a limited liability company incorporated in Bermuda. The principal office of the Company is located at 5/F, Cheong Wah Factory Building, 39-41 Sheung Heung Road, Tokwawan, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of cement
- property investment
- manufacture and sale of traditional Chinese medicine products
- sale of electronic products
- sale of plywood and other wood products
- investment holding

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, derivative financial instruments and certain equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Notes to Financial Statements

31 December 2008

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments*: *Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 — *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures — Reclassification of Financial Assets.

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

(Continued)

(b) HK(IFRIC)-Int 11 HKFRS 2 — Group and Treasury Share Transactions

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 Service Concession Arrangements

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

Notes to Financial Statements

31 December 2008

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment — Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments*: *Disclosures — Improving Disclosures about Financial Instruments* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation and* HKAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* [2]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (Continued)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adopting of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rate*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associates, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture ; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 Summary of Significant Accounting Policies (Continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

2.4 Summary of Significant Accounting Policies (Continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets other than goodwill (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	18% — 20%
Plant and machinery	4% — 15%
Furniture, fixtures and office equipment	9% — 20%
Computer equipment	18% — 20%
Launch	15%
Motor vehicles	14% — 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, structures, plant and machinery and other items of property, plant and equipment under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or installation during the period of construction or installation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 Summary of Significant Accounting Policies (Continued)

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest earned is reported as interest income and is recognised in the income statement as "Revenue" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets".

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to the present value of estimated future cash flows.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and an interest in a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 35 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Share-based payment transactions (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of contributed surplus within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2008

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Impairment assessment for trade receivables

The policy for impairment assessment for trade receivables of the Group is based on the evaluation of collectability and an aged analysis of trade receivables and on the judgement of management. A considerable amount of judgement 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 are to deteriorate, resulting in an impairment of their ability to make payments, provisions may be required.

The carrying amount of trade receivables at 31 December 2008 was approximately HK$28,826,000 (2007: HK$30,160,000).

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was approximately HK$15,842,000 (2007: HK$15,842,000). More details are set out in note 17 to the financial statements.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

The carrying amount of investment properties at 31 December 2008 was approximately HK$1,290,968,000 (2007: HK$1,116,165,000) (note 15).

Notes to Financial Statements

31 December 2008

4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the cement products segment includes the Group's manufacture and sale of cement products for use in the construction industry;

(b) the property investment segment includes the Group's investments in industrial, commercial and residential premises for their rental income potential;

(c) the traditional Chinese medicine products segment includes the Group's manufacture and sale of traditional Chinese medicine products;

(d) the investment segment includes the Group's investments in and holding of equity investments; and

(e) the corporate and others segment comprises corporate income and expense items and the Group's manufacture and sale of electronic products and plywood products.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. Segment Information (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Group

	Cement products		Property investment		Traditional Chinese medicine products		Investment		Corporate and others		Eliminations		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment revenue:														
Sales to external customers	**451,994**	401,749	**134,012**	116,507	**2,486**	4,736	**—**	—	**6,254**	6,259	**—**	—	**594,746**	529,251
Intersegment sales	**—**	—	**510**	432	**—**	—	**—**	—	**—**	—	**(510)**	(432)	**—**	—
Other income and gains	**7,322**	1,033	**7,907**	1,391	**78**	—	**—**	—	**1,669**	1,075	**—**	—	**16,976**	3,499
Total	**459,316**	402,782	**142,429**	118,330	**2,564**	4,736	**—**	—	**7,923**	7,334	**(510)**	(432)	**611,722**	532,750
Segment results	**124,323**	109,644	**353,520**	278,556	**(5,371)**	(2,593)	**(193)**	(98)	**(49,740)**	(30,731)	**—**	—	**422,539**	354,778
Interest income													**15,626**	18,137
Fair value gains on derivative financial instrument													**244**	—
Finance costs													**(21,868)**	(14,688)
Share of profits and losses from associates													**(2,422)**	—
Share of profits and losses of jointly-controlled entities													**(897)**	(2,107)
Profit before tax													**413,222**	356,120
Tax													**(103,469)**	(56,218)
Profit for the year													**309,753**	299,902
Assets and liabilities														
Segment assets	**1,272,200**	795,365	**1,360,910**	1,163,474	**3,047**	1,711	**47,481**	49,619	**335,614**	348,669	**(7,841)**	(7,841)	**3,011,411**	2,350,997
Interests in associates													**129,508**	—
Interests in jointly-controlled entities													**2,975**	2,941
Unallocated assets													**244**	523,899
Total assets													**3,144,138**	2,877,837
Segment liabilities	**77,020**	33,442	**85,856**	58,324	**2,764**	6,674	**6,014**	2,387	**24,563**	23,988	**—**	—	**196,217**	124,815
Unallocated liabilities													**744,520**	497,307
Total liabilities													**940,737**	622,122
Other segment information:														
Depreciation	**24,560**	24,467	**520**	2,162	**227**	399	**1,209**	3,162	**1,923**	1,892	**—**	—	**28,439**	32,082
Capital expenditure	**340,274**	251,886	**15**	4,000	**693**	18	**364**	1,030	**1,430**	1,726	**—**	—	**342,776**	258,660
Impairment of an interest in an associate	**—**	—	**—**	—	**—**	—	**—**	3	**—**	—	**—**	—	**—**	3
Impairment of trade receivables	**—**	—	**—**	—	**—**	—	**155**	211	**—**	—	**—**	—	**155**	211
Fair value gains on investment properties, net	**—**	—	**255,780**	207,192	**—**	—	**—**	—	**—**	—	**—**	—	**255,780**	207,192

Notes to Financial Statements

31 December 2008

4. Segment Information (Continued)

(b) Geographical segments

The following table presents revenue, certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Group

	Vietnam		Mainland China		Hong Kong		Eliminations		Consolidated	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Segment revenue:										
Sales to external customers	**577,342**	511,520	**5,857**	5,279	**11,547**	12,452	**—**	—	**594,746**	529,251
Other segment information:										
Segment assets	**2,144,176**	1,655,444	**169,999**	139,164	**837,804**	1,091,070	**(7,841)**	(7,841)	**3,144,138**	2,877,837
Capital expenditure	**232,071**	257,518	**—**	—	**110,705**	1,142	**—**	—	**342,776**	258,660

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and gross rental income received and receivable from investment properties during the year.

An analysis of the Group's revenue, other income and gains is as follows:

	2008 HK$'000	2007 HK$'000
Revenue		
Sale of cement	**451,994**	401,749
Gross rental income	**134,012**	116,507
Sale of electronic products	**2,261**	770
Sale of traditional Chinese medicine products	**2,486**	4,736
Sale of plywood and other wood products	**3,993**	5,489
	594,746	529,251
Other income and gains		
Bank interest income	**15,626**	18,137
Excess over the cost of acquisition of a subsidiary	**—**	213
Fair value gains on derivative financial instruments	**244**	—
Gains on disposal of items of property, plant and equipment	**—**	816
Gain on disposal of a subsidiary (note 37)	**10,368**	—
Others	**6,608**	2,470
	32,846	21,636

Notes to Financial Statements

31 December 2008

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2008 HK$'000	2007 HK$'000
Cost of inventories sold		**263,313**	235,365
Depreciation	14	**28,439**	32,082
Recognition of prepaid land lease payments	16	**2,009**	2,012
Research and development costs*		**3,325**	1,809
Auditors' remuneration		**1,618**	1,456
Minimum operating lease payments in respect of land and buildings		**726**	949
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		**35,002**	26,974
Equity-settled share option expense	35	**4,498**	3,904
Pension scheme contributions		**625**	331
		40,125	31,209
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties		**4,352**	3,931
Foreign exchange differences, net		**24,105**	(1,431)
Net rental income		**(131,064)**	(112,576)
Impairment of an interest in an associate*	20	**—**	3
Impairment of trade receivables*	23	**155**	211
Impairment of available-for-sale investments*	21	**—**	199
Loss on disposal of items of property, plant and equipment		**235**	—

* These items are included in "Other expenses" on the face of the consolidated income statement.

7. Finance Costs

	Group	
	2008	2007
	HK$'000	HK$'000
Interest on overdrafts and bank loans wholly repayable within five years	**21,807**	14,646
Interest on finance leases	**61**	42
	21,868	14,688

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Fees	**800**	800
Other emoluments:		
Salaries, allowances and benefits in kind	**7,137**	7,137
Discretionary bonuses	**2,500**	400
Pension scheme contributions	**48**	48
	9,685	7,585
	10,485	8,385

8. Directors' Remuneration (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2008 HK$'000	2007 HK$'000
Liu Li Yuan	**100**	100
Liang Fang	**100**	100
Tam Kan Wing	**100**	100
	300	300

There were no other emoluments payable to the independent non-executive directors during the year (2007: nil).

(b) Executive directors

	Fees HK$'000	**Salaries, allowances and benefits in kind** HK$'000	**Discretionary bonuses** HK$'000	**Pension scheme contributions** HK$'000	**Total remuneration** HK$'000
2008					
Luk King Tin	**100**	**2,340**	**2,000**	**—**	**4,440**
Cheng Cheung	**100**	**1,690**	**—**	**—**	**1,790**
Luk Yan	**100**	**1,300**	**500**	**12**	**1,912**
Luk Fung	**100**	**715**	**—**	**24**	**839**
Fan Chiu Tat, Martin	**100**	**1,092**	**—**	**12**	**1,204**
	500	**7,137**	**2,500**	**48**	**10,185**
2007					
Luk King Tin	100	2,340	—	—	2,440
Cheng Cheung	100	1,690	—	—	1,790
Luk Yan	100	1,300	400	12	1,812
Luk Fung	100	715	—	24	839
Fan Chiu Tat, Martin	100	1,092	—	12	1,204
	500	7,137	400	48	8,085

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. Five Highest Paid Employees

The five highest paid employees during the year included four (2007: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2007: one) non-director, highest paid employee for the year is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,052**	897
Discretionary bonuses	**—**	400
	1,052	1,297

The number of non-director, highest paid employees whose remuneration fell within the following bands:

	Number of employees	
	2008	2007
HK$1,000,001 to HK$1,500,000	**1**	1

10. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31 December 2008. Taxes on the profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2008	2007
	HK$'000	HK$'000
Group:		
Current — elsewhere	**22,232**	9,276
Overprovision in prior years — elsewhere	**—**	(17,347)
Deferred (note 33)	**81,237**	64,289
Total tax charge for the year	**103,469**	56,218

In accordance with the relevant tax rules and regulations in Vietnam, certain of the Group's subsidiaries in Vietnam enjoy income tax exemptions and reductions. At present, the standard income tax rate applicable to these subsidiaries is 7.5% to 25%.

Notes to Financial Statements

31 December 2008

10. Tax (Continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2008

	Hong Kong		Mainland China		Vietnam		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(44,798)		(4,539)		462,559		413,222	
Tax at the statutory tax rate	(7,392)	16.5	(1,135)	25.0	115,640	25.0	107,113	25.9
Lower tax rates for specific provinces or enacted by local authority	—	—	1,052	(23.2)	(20,029)	(4.3)	(18,977)	(4.6)
Profits and losses attributable to jointly-controlled entities	—	—	(224)	4.9	—	—	(224)	(0.1)
Profits and losses attributable to associates	—	—	—	—	(605)	(0.1)	(605)	(0.1)
Income not subject to tax	(4,148)	9.2	(4)	0.1	(270)	(0.1)	(4,422)	(1.1)
Expenses not deductible for tax	4,805	(10.7)	—	—	6,026	1.3	10,831	2.6
Tax losses not recognised	6,735	(15.0)	1,573	(34.6)	1,445	0.3	9,753	2.4
Tax charge at the Group's effective rate	—	—	1,262	(27.8)	102,207	22.1	103,469	25.0

10. Tax (Continued)

Group — 2007

	Hong Kong		Mainland China		Vietnam		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(15,297)		9,130		362,287		356,120	
Tax at the statutory tax rate	(2,677)	17.5	3,013	33.0	90,572	25.0	90,908	25.5
Lower tax rates for specific provinces or local authority	—	—	(2,169)	(23.8)	(18,938)	(5.2)	(21,107)	(5.9)
Adjustments in respect of current tax of previous periods	(17,347)	113.0	—	—	—	—	(17,347)	(4.9)
Profits and losses attributable to jointly-controlled entities	—	—	(695)	(7.6)	—	—	(695)	(0.2)
Income not subject to tax	(526)	3.4	—	—	(204)	(0.1)	(730)	(0.2)
Expenses not deductible for tax	2,462	(16.1)	623	6.8	199	0.1	3,284	1.0
Tax losses utilised	(1,293)	8.5	—	—	—	—	(1,293)	(0.4)
Tax losses not recognised	2,034	(13.3)	695	7.6	469	0.1	3,198	0.9
Tax charge at the Group's effective rate	(17,347)	113.0	1,467	16.0	72,098	19.9	56,218	15.8

11. Profit Attributable to Equity Holders of the Parent

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a loss of HK$36,041,000 (2007: loss of HK$6,427,000) which has been dealt with in the financial statements of the Company (note 36(b)).

12. Dividends

	2008	2007
	HK$'000	HK$'000
Interim — HK4 cents (2007: HK3 cents) per ordinary share	**21,788**	17,199
Proposed final — HK6 cents (2007: HK5 cents) per ordinary share	**30,684**	28,427
	52,472	45,626

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2008	2007
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**312,384**	302,640

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**552,483,742**	546,202,137
Effect of dilution — weighted average number of ordinary shares:		
Share options	**1,142,949**	3,941,214
	553,626,691	550,143,351

14. Property, Plant and Equipment

Group

31 December 2008	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Launch HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 31 December 2007 and at 1 January 2008:									
Cost	90,794	2,003	596,390	14,814	967	2,251	13,754	216,327	937,300
Accumulated depreciation	(46,787)	(1,584)	(173,313)	(13,217)	(707)	(2,251)	(10,889)	—	(248,748)
Net carrying amount	44,007	419	423,077	1,597	260	—	2,865	216,327	688,552
At 1 January 2008, net of accumulated depreciation	44,007	419	423,077	1,597	260	—	2,865	216,327	688,552
Additions	124	637	10,569	260	257	—	987	329,942	342,776
Disposals	—	—	(1,417)	—	(1)	—	—	—	(1,418)
Depreciation provided during the year	(3,532)	(193)	(22,941)	(310)	(104)	—	(1,359)	—	(28,439)
Exchange realignment	(2,238)	—	(38,054)	(94)	(7)	—	(114)	(21,490)	(61,997)
At 31 December 2008, net of accumulated depreciation	38,361	863	371,234	1,453	405	—	2,379	524,779	939,474
At 31 December 2008:									
Cost	85,301	2,525	552,772	13,965	1,202	2,251	13,904	524,779	1,196,699
Accumulated depreciation	(46,940)	(1,662)	(181,538)	(12,512)	(797)	(2,251)	(11,525)	—	(257,225)
Net carrying amount	38,361	863	371,234	1,453	405	—	2,379	524,779	939,474

Notes to Financial Statements

31 December 2008

14. Property, Plant and Equipment (Continued)

Group

31 December 2007	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Launch HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2007:									
Cost	73,595	1,653	366,898	14,113	881	2,251	12,818	191,759	663,968
Accumulated depreciation	(28,804)	(1,380)	(148,772)	(12,615)	(609)	(2,251)	(9,373)	—	(203,804)
Net carrying amount	44,791	273	218,126	1,498	272	—	3,445	191,759	460,164
At 1 January 2007, net of accumulated depreciation	44,791	273	218,126	1,498	272	—	3,445	191,759	460,164
Additions	11	350	9,511	642	85	—	897	243,719	255,215
Disposals	—	—	(1,402)	—	—	—	—	—	(1,402)
Acquisition of a subsidiary	3,445	—	—	—	—	—	—	—	3,445
Depreciation provided during the year	(4,380)	(204)	(25,367)	(547)	(98)	—	(1,486)	—	(32,082)
Transfers	—	—	219,298	—	—	—	—	(219,298)	—
Exchange realignment	140	—	2,911	4	1	—	9	147	3,212
At 31 December 2007, net of accumulated depreciation	44,007	419	423,077	1,597	260	—	2,865	216,327	688,552
At 31 December 2007:									
Cost	90,794	2,003	596,390	14,814	967	2,251	13,754	216,327	937,300
Accumulated depreciation	(46,787)	(1,584)	(173,313)	(13,217)	(707)	(2,251)	(10,889)	—	(248,748)
Net carrying amount	44,007	419	423,077	1,597	260	—	2,865	216,327	688,552

14. Property, Plant and Equipment (Continued)

Company

	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2008				
At 31 December 2007 and at 1 January 2008:				
Cost	91	287	435	813
Accumulated depreciation	(86)	(134)	(390)	(610)
Net carrying amount	5	153	45	203
At 1 January 2008, net of accumulated depreciation	5	153	45	203
Additions	47	15	—	62
Depreciation provided during the year	(35)	(37)	(45)	(117)
At 31 December 2008, net of accumulated depreciation	17	131	—	148
At 31 December 2008:				
Cost	138	302	—	440
Accumulated depreciation	(121)	(171)	—	(292)
Net carrying amount	17	131	—	148

Notes to Financial Statements

31 December 2008

14. Property, Plant and Equipment (Continued)

Company

	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2007				
At 1 January 2007:				
Cost	82	202	435	719
Accumulated depreciation	(50)	(111)	(281)	(442)
Net carrying amount	32	91	154	277
At 1 January 2007, net of accumulated depreciation	32	91	154	277
Additions	9	85	—	94
Depreciation provided during the year	(36)	(23)	(109)	(168)
At 31 December 2007, net of accumulated depreciation	5	153	45	203
At 31 December 2007:				
Cost	91	287	435	813
Accumulated depreciation	(86)	(134)	(390)	(610)
Net carrying amount	5	153	45	203

14. Property, Plant and Equipment (Continued)

The Group's leasehold land and buildings included above are held, under the following lease terms:

	Group	
	2008	2007
	HK$'000	HK$'000
At cost:		
Situated in Hong Kong:		
Long-term leases	**48,136**	48,136
Situated elsewhere:		
Short-term leases	**37,165**	42,658
	85,301	90,794

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 December 2008 amounted to HK$926,745 (2007: HK$1,233,447).

At 31 December 2008, certain of the Group's leasehold land and buildings situated in Hong Kong with an aggregate net book value of approximately HK$35,585,000 (2007: HK$25,145,000) and plant and machinery with an aggregate net book value of approximately HK$330,682,000 (2007: HK$181,181,000) were pledged to secure general banking facilities granted to the Group (note 30).

15. Investment Properties

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**1,116,165**	899,441
Net profit from a fair value adjustment	**255,780**	207,192
Exchange realignment	**(80,977)**	9,532
Carrying amount at 31 December	**1,290,968**	1,116,165

Notes to Financial Statements

31 December 2008

15. Investment Properties (Continued)

The investment properties are held under the following lease terms:

	Group	
	2008	2007
	HK$'000	HK$'000
Situated in Hong Kong:		
Long-term leases	**24,357**	14,426
Medium-term leases	**124,625**	139,328
	148,982	153,754
Situated elsewhere:		
Long-term leases	**87,690**	89,779
Medium-term leases	**1,007,399**	824,675
Short-term leases	**46,897**	47,957
	1,141,986	962,411
	1,290,968	1,116,165

The investment properties were revalued on 31 December 2008 by independent professionally qualified valuers, on an open market, existing use basis. The investment properties situated in Hong Kong and Mainland China were revalued by Vigers Appraisal & Consulting Limited and the investment properties situated in Vietnam were revalued by Jones Lang LaSalle Vietnam Limited. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a) to the financial statements.

At 31 December 2008, certain of the Group's investment properties situated in Hong Kong with a fair value of approximately HK$112,000,000 (2007: HK$120,000,000) were pledged to secure general banking facilities granted to the Group (note 30).

Further particulars of the Group's investment properties are included on page 109.

16. Prepaid Land Lease Payments

	Group	
	2008	2007
	HK$'000	HK$'000
Carrying amount at 1 January	**22,153**	24,186
Recognised during the year (note 6)	**(2,009)**	(2,012)
Exchange realignment	**(1,862)**	(21)
Carrying amount at 31 December	**18,282**	22,153
Current portion included in prepayments, deposits and other receivables	**(1,951)**	(2,009)
Non-current portion	**16,331**	20,144

The leasehold land is held under a medium-term lease and is situated in Vietnam.

At 31 December 2008, the Group's prepaid land lease payments with an aggregate net book value of approximately HK$18,282,000 (2007: nil) were pledged to secure general banking facilities granted to the Group (note 30).

17. Goodwill

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January:		
Cost	**262,558**	262,558
Accumulated impairment	**(246,716)**	(246,716)
Net carrying amount	**15,842**	15,842
Cost at 1 January, net of accumulated impairment	**15,842**	15,842
Impairment during the year	**—**	—
Net carrying amount at 31 December	**15,842**	15,842

17. Goodwill (Continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- Traditional Chinese medicine products cash-generating unit;
- Property investment cash-generating unit; and
- Cement products cash-generating unit.

Traditional Chinese medicine products cash-generating unit

No impairment loss was charged (2007: nil) to the income statement for the year ended 31 December 2008 for the traditional Chinese medicine products business because the carrying amount of goodwill was fully impaired at the beginning of the financial year.

Property investment cash-generating unit

The recoverable amount of the property investment cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the directors. The discount rate applied to the cash flow projections is 15% (2007: 12%).

Cement products cash-generating unit

The recoverable amount of the cement products cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the directors. The discount rate applied to the cash flow projections is 6% (2007: 6%).

17. Goodwill (Continued)

Impairment testing of goodwill (Continued)

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Property investment	**15,659**	15,659
Cement products	**183**	183
	15,842	15,842

Key assumptions were used in the value in use calculation of the property investment and cement products cash-generating units for 31 December 2008 and 31 December 2007. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The budgeted gross margins have been determined based on past performance and management's expectations for the market performance.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

18. Interests in Subsidiaries

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**785,890**	785,890
Due from subsidiaries	**828,327**	119,820
Due to subsidiaries	**(648,211)**	(594)
	966,006	905,116
Provision for amounts due from subsidiaries	**(6,588)**	—
	959,418	905,116

The amounts due from and to subsidiaries are unsecured and interest-free, and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Notes to Financial Statements

31 December 2008

18. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company 2008	2007	Principal activities
Luks Holdings (BVI) Limited	British Virgin Islands/ Hong Kong	US$2	**100**	100	Investment holding
Luks Industrial Company Limited*	Hong Kong	HK$168,048,482	**100**	100	Property investment and investment holding
Luks Industrial (Bao An) Company Limited*#	PRC/ Mainland China	HK$39,000,000	**100**	100	Property investment
Luks Vietnam Company Limited*	British Virgin Islands/ Hong Kong	US$3	**100**	100	Investment holding
Luks Timber Investments Limited*	Hong Kong	HK$2	**100**	100	Investment holding
Luks Timber (Vietnam) Limited*	Vietnam	VND15,715,698,000	**100**	100	Sale of plywood
Luks Cement Company Limited*	British Virgin Islands/ Hong Kong	US$50,000	**100**	100	Investment holding
Luks Cement (Vietnam) Limited*	Vietnam	VND329,356,867,000	**100**	100	Manufacture and sale of cement
Luks Land Company Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Luks Land (Vietnam) Limited*	Vietnam	VND193,639,051,000	**100**	100	Property investment and management

18. Interests in Subsidiaries (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2008	2007	
Prime Wise Investments Limited*	Hong Kong/ Mainland China	HK$2	**100**	100	Property investment
Redmond Investments Limited*	Hong Kong/ Mainland China	HK$2	**100**	100	Property investment
Vigconic (International) Limited*	Hong Kong	HK$400,000	**75**	75	Manufacture and sale of traditional Chinese medicine products
Luks Land Development Limited*	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
Luks Land Investment Limited*	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
Sangor (Vietnam) Limited*	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding
Singer (Vietnam) Company Limited*	Vietnam	US$9,935,427	**70**	70	Property investment

* Held through subsidiaries

\# Registered as a wholly-foreign-owned enterprise under the PRC law

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

Notes to Financial Statements

31 December 2008

19. Interests in Jointly-controlled Entities

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net assets	**24,629**	24,595
Due to a jointly-controlled entity	**(21,654)**	(21,654)
	2,975	2,941

The amount due to a jointly-controlled entity is unsecured and interest-free, and has no fixed terms of repayment. The carrying amount of the amount due to the jointly-controlled entity approximates to its fair value.

Particulars of the jointly-controlled entity are as follows:

		Percentage of			
Name	**Place of registration**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activity**
Chengdu Leming House Development Company Limited#	PRC	75	51	75	Property development

Held through a 68%-owned subsidiary of the Company

19. Interests in Jointly-controlled Entities (Continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	Group	
	2008	2007
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**11,132**	11,390
Non-current assets	**31,674**	30,120
Current liabilities	**(17,016)**	(15,822)
Non-current liabilities	**(1,161)**	(1,093)
Net assets	**24,629**	24,595
Share of jointly-controlled entities' results:		
Revenue	**370**	1,562
Other income	**343**	417
	713	1,979
Total expenses	**(1,610)**	(4,076)
Tax	**—**	(10)
Loss after tax	**(897)**	(2,107)

20. Interests in Associates

	Group	
	2008	2007
	HK$'000	HK$'000
Share of net liabilities	**(1,300)**	—
Loans to associates	**158,755**	27,946
	157,455	27,946
Provision for impairment	**(27,946)**	(27,946)
	129,509	—

The loans to the associates are unsecured and interest-free, and have no fixed terms of repayment.

20. Interests in Associates (Continued)

The movements in provision for impairment of loans to associates are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**27,946**	27,943
Impairment losses recognised (note 6)	**—**	3
At 31 December	**27,946**	27,946

These loans to associates are expected to be in default due to the financial difficulties of the associates.

Particulars of the principal associates are as follows:

Name	Particulars of issued shares held	Place of incorporation	Percentage of equity attributable to the Group		Principal activity
			2008	2007	
Luks Electronic Company Limited	Ordinary shares of HK$100 each	Hong Kong	**40**	40	Investment holding
Luks Truong Son Company Limited	Ordinary shares of VND 1 each	Vietnam	**49**	—	Production and sale of limestone
Luks An Company Limited	Ordinary shares of VND 1 each	Vietnam	**49**	—	Provision of transportation services
Luks Truong An Company Limited	Ordinary shares of VND 1 each	Vietnam	**49**	—	Production and sale of cement additions
Luks New Property Solution Company Limited #	Ordinary shares of USD 1 each	Mongolia	**51**	—	Property development

The Group owns 40% voting power in the board of directors of Luks New Property Solution Company Limited.

20. Interests in Associates (Continued)

The associates are indirectly held through subsidiaries.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The Group had discontinued the recognition of its share of losses of Luks Electronic Company Limited because the Group's share of loss of this associate exceeded the Group's interest in the associate. The Group's unrecognised share of loss of this associate for the current year and cumulatively was approximately HK$300 (2007: HK$3,000) and HK$11,271,300 (2007: HK$11,271,000), respectively.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2008 **HK$'000**	2007 HK$'000
Assets	**13,318**	14
Liabilities	**181,550**	28,077
Loss after tax	**4,870**	3

21. Available-for-sale Investments

	Group	
	2008 **HK$'000**	2007 HK$'000
Unlisted equity investments — overseas	**416**	458

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

During the year, no impairment (2007: HK$199,000) was recognised in the income statement.

Notes to Financial Statements

31 December 2008

22. Inventories

	Group	
	2008	2007
	HK$'000	HK$'000
Raw materials	**46,437**	6,306
Work in progress	**13,243**	3,428
Finished goods	**4,007**	4,183
	63,687	13,917

23. Trade Receivables

	Group	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**29,113**	30,292
Impairment	**(287)**	(132)
	28,826	30,160

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The Group allows an average credit period of 60 days for its trade debtors. The Group seeks to maintain strict control over its outstanding receivables.

Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

23. Trade Receivables (Continued)

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, and net of impairment, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 — 30 days	**14,844**	21,006
31 — 60 days	**4,715**	1,954
61 — 90 days	**2,061**	1,270
91 — 120 days	**1,188**	2,108
Over 120 days	**6,018**	3,822
	28,826	30,160

The movements in provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	**132**	1,074
Impairment losses recognised (note 6)	**155**	211
Amounts written off as uncollectible	**—**	(1,153)
	287	132

The above provision for impairment of trade receivables represent provision for individually impaired trade receivables, which relate to customers that were in default. The Group does not hold any collateral or other credit enhancement over these balances.

Notes to Financial Statements

31 December 2008

23. Trade Receivables (Continued)

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**18,305**	20,529
Less than 3 months past due	**4,152**	5,808
Over 3 months past due	**6,369**	3,823
	28,826	30,160

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

24. Debt Investments at Fair Value Through Profit or Loss

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed debt investments — overseas	**1,094**	1,094	**1,094**	1,094

The above debt investments as at 31 December 2008 and 2007 were classified as held for trading.

25. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**135,905**	320,606	**65,268**	54,804
Time deposits	**397,855**	531,502	**201,650**	531,290
	533,760	852,108	**266,918**	586,094
Less: Pledged time deposits for trade finance facilities	**(65,660)**	(8,109)	**(65,660)**	(8,109)
Cash and cash equivalents	**468,100**	843,999	**201,258**	577,985

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") and Vietnamese Dong ("VND") amounted to approximately HK$31,484,000 (2007: HK$805,000) and HK$18,504,000 (2007: HK$54,369,000), respectively. The RMB and VND are not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations and the Law on Foreign Investment in Vietnam, the Group is permitted to exchange RMB and VND for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. Derivative Financial Instruments

	Group	
	2008	2007
	HK$'000	HK$'000
Interest rate swaps	**244**	—

The carrying amounts of interest rate swaps are the same as their fair values.

Notes to Financial Statements

31 December 2008

27. Trade Payables

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2008	2007
	HK$'000	HK$'000
0 — 30 days	**17,802**	15,097
31 — 60 days	**15,668**	499
61 — 90 days	**16,368**	64
91 — 120 days	**7,161**	293
Over 120 days	**13,173**	8,283
	70,172	24,236

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

28. Due to Directors

The amounts due to directors are unsecured and interest-free, and have no fixed terms of repayment. The carrying amounts of the amounts due to directors approximate to their fair values.

29. Due to a Related Company

The amount due to a related company is unsecured and interest-free, and is repayable on demand. The carrying amount of the amount due to a related company approximates to its fair value.

30. Interest-bearing Bank and Other Borrowings

	Effective interest rate (%)	Maturity	Group 2008 HK$'000	Group 2007 HK$'000
Current				
Finance lease payables (note 31)		2009	**318**	452
Bank loans — secured	1.10 — 12.75	2009	**182,230**	121,571
			182,548	122,023
Non-current				
Finance lease payables (note 31)		2010-2011	**93**	341
Bank loans — secured	1.10 — 12.75	2010-2014	**295,108**	181,084
			295,201	181,425
			477,749	303,448
Analysed into:				
Bank loans repayable:				
Within one year			**182,230**	121,571
In the second year			**76,927**	30,373
In the third to fifth years, inclusive			**218,181**	150,711
			477,338	302,655
Other borrowings repayable:				
Within one year			**318**	452
In the second year			**93**	285
In the third to fifth years, inclusive			**—**	56
			411	793
			477,749	303,448

Notes to Financial Statements

31 December 2008

30. Interest-bearing Bank and Other Borrowings (Continued)

	Effective interest rate (%)	Maturity	Company 2008 HK$'000	2007 HK$'000
Current				
Bank loans — secured	HIBOR + (0.8 to 1.75)	2009	**21,313**	8,400
Non-current				
Bank loans — secured	HIBOR + (0.8 to 1.75)	2010-2012	**43,389**	30,267
			64,702	38,667
Analysed into:				
Bank loans repayable:				
Within one year			**21,313**	8,400
In the second year			**21,313**	8,400
In the third to fifth years, inclusive			**22,076**	21,867
			64,702	38,667

Notes:

(a) At the balance sheet date, the following assets were pledged to secure the above bank loans and general banking facilities granted to the Group:

(i) certain of the Group's leasehold land and buildings situated in Hong Kong with an aggregate net book value of approximately HK$35,585,000 (2007: HK$25,145,000);

(ii) the Group's prepaid land lease payments situated in Vietnam with an aggregate net book value of approximately HK$18,282,000 (2007: nil);

(iii) certain of the Group's investment properties situated in Hong Kong with an aggregate carrying value of approximately HK$112,000,000 (2007: HK$120,000,000); and

(iv) the Group's plant and machinery with an aggregate net book value of approximately HK$330,682,000 (2007: HK$181,181,000).

(b) The secured bank loans are denominated in Hong Kong dollars, Vietnamese Dong and United States dollars with aggregate amount of HK$73,202,000 (2007: HK$53,167,000), HK$215,464,000 (2007: HK$133,323,000) and HK$188,672,000 (2007: HK$116,165,000) respectively.

30. Interest-bearing Bank and Other Borrowings (Continued)

(c) Other interest rate information:

	Group	
	2008	2007
	HK$'000	HK$'000
Fixed rate:		
Finance lease payables	**411**	793
Bank loans — secured	**112,084**	106,028
	112,495	106,821
Floating rate:		
Bank loans — secured	**365,254**	196,627
	477,749	303,448

The carrying amounts of the Group's bank borrowings approximate to their fair values.

Notes to Financial Statements

31 December 2008

31. Finance Lease Payables

The Group leases certain of its motor vehicles. These leases are classified as a finance lease and have remaining lease terms from two to three years.

At 31 December 2008, the total future minimum lease payments under the finance lease and their present values were as follows:

Group

	Minimum lease payments		Present value of minimum lease payments	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Amounts payable:				
Within one year	**352**	493	**318**	452
In the second year	**102**	285	**90**	285
In the third to fifth years, inclusive	**3**	57	**3**	56
Total minimum finance lease payments	**457**	835	**411**	793
Future finance charges	**(46)**	(42)		
Total net finance lease payables	**411**	793		
Portion classified as current liabilities (note 30)	**(318)**	(452)		
Non-current portion (note 30)	**93**	341		

32. Provisions

Group

	Long service payments HK$'000	**Environmental restoration** HK$'000	**Total** HK$'000
At 1 January 2008	4,262	782	5,044
Additional provision	183	11	194
Amount utilised during the year	(112)	—	(112)
Exchange realignment	—	(70)	(70)
At 31 December 2008	4,333	723	5,056

Company

	Long service payments HK$'000	**Total** HK$'000
At 1 January 2008	—	—
Additional provision	3,695	3,695
At 31 December 2008	3,695	3,695

The Group provides for probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance.

The provision for environmental restoration costs has been determined by the directors based on the best estimate of the expected costs. However, insofar as the effect on the land and the environment from current limestone excavation activities becomes apparent in future periods, the estimate of the associated costs may be subject to change.

Notes to Financial Statements

31 December 2008

33. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
2008			
At 1 January 2008	**14,377**	**147,214**	**161,591**
Deferred tax charged to the income statement during the year (note 10)	**8,568**	**72,622**	**81,190**
Gross deferred tax liabilities At 31 December 2008	**22,945**	**219,836**	**242,781**

	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
2007			
At 1 January 2007	231	97,024	97,255
Deferred tax charged to the income statement during the year (note 10)	14,146	50,190	64,336
Gross deferred tax liabilities At 31 December 2007	14,377	147,214	161,591

33. Deferred Tax (Continued)

Deferred tax assets

	Losses available for offsetting against future taxable profit	
	2008	2007
	HK$'000	HK$'000
At beginning of year	**47**	—
Deferred tax credited/(debited) to the income statement during the year (note 10)	**(47)**	47
Gross deferred tax assets at end of year	**—**	47

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2008	2007
	HK$'000	HK$'000
Net deferred tax assets recognised in the consolidated balance sheet	**—**	47
Net deferred tax liabilities recognised in the consolidated balance sheet	**(242,781)**	(161,591)
	(242,781)	(161,544)

The Group has tax losses arising in Hong Kong of approximately HK$501,713,000 (2007: HK$530,406,000) that are available indefinitely and in Vietnam of approximately HK$7,100,000 (2007: HK$3,014,000) that are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time, and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries, associates or jointly-controlled entities, as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to Financial Statements

31 December 2008

34. Share Capital

	2008	2007
	HK$'000	HK$'000
Authorised:		
760,000,000 ordinary shares of HK$0.01 each	**7,600**	7,600
Issued and fully paid:		
514,953,418 (2007: 573,485,418) ordinary shares of HK$0.01 (2007: HK$0.01) each	**5,150**	5,735

A summary of the transactions in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued capital**	**Share premium account**	**Total**
		HK$'000	HK$'000	HK$'000
At 1 January 2007	499,935,418	4,999	211,119	216,118
Share options exercised	13,550,000	136	18,780	18,916
Allotment	60,000,000	600	743,833	744,433
At 31 December 2007 and 1 January 2008	573,485,418	5,735	973,732	979,467
Share options exercised	1,250,000	13	2,166	2,179
Repurchase of shares	(59,782,000)	(598)	(218,250)	(218,848)
At 31 December 2008	514,953,418	5,150	757,648	762,798

During 2008, the subscription rights attached to 1,050,000 and 200,000 share options were exercised at the subscription price of HK$1.21 and HK$3.18 per share respectively, resulting in the issue of 1,250,000 shares of HK$0.01 each for a total cash consideration of HK$1,906,500.

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

35. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, and other employees of the Group. The Scheme became effective on 18 May 2006 and, unless otherwise cancelled or amended, will remain in force for five years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period of 1 to 3 years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; or (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

35. Share Option Scheme (Continued)

The following share options were outstanding under the Scheme during the year.

										Price of the Company's shares***		
Name or category of participant	At 1 January 2008	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2008	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	At grant date of option HK$	Immediately before the exercise date HK$	At exercise date of options HK$
Directors												
Cheng Cheung	1,000,000	–	(1,000,000)	–	–	–	23-5-2006	30-5-2006 to 18-5-2011	1.21	1.19	6.47	6.46
	1,000,000	–	(1,000,000)	–	–	–						
Employees												
In aggregate	1,000,000	–	(50,000)	–	–	950,000	23-5-2006	30-5-2006 to 18-5-2011	1.21	1.19	6.05 — 7.81	6.16 — 7.55
	670,000	–	(200,000)	–	–	470,000	25-10-2006	25-10-2006 to 18-5-2011	3.18	3.18	9.38	9.26
	2,350,000	–	–	–	–	2,350,000	1-2-2007	1-2-2007 to 18-5-2011	5.04	5.04	–	–
	1,650,000	–	–	–	–	1,650,000	25-9-2007	25-9-2008 to 18-5-2011	10.06	10.06	–	–
	–	100,000	–	–	–	100,000	5-8-2008	5-8-2008 to 18-5-2011	4.34	4.16	–	–
	5,670,000	100,000	(250,000)	–	–	5,520,000						
	6,670,000	100,000	(1,250,000)	–	–	5,520,000						

Notes to the share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period and subject to the exercise conditions of after certain years of employment ranging from one to three years.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The weighted average closing price of the Company's shares immediately before the exercise dates of share options was HK$6.92.

The fair value of the share options granted during the year was HK$117,245 (2007: HK$9,836,000). During the year, the Group recognised a share option expense of HK$4,498,000 (2007: HK$3,904,000) which included HK$4,462,000 recognised from the share options granted in 2007.

35. Share Option Scheme (Continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2008	2007
Dividend yield (%)	**1.92**	0.80 — 1.59
Expected volatility (%)	**62.74**	35.55 — 58.65
Risk-free interest rate (%)	**1.32**	3.90 — 4.06
Expected life of option (year)	**0.32 — 1.91**	2.69 — 2.90

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 1,250,000 (2007: 13,550,000) share options exercised during the year resulted in the issue of 1,250,000 (2007: 13,550,000) ordinary shares of the Company and new share capital of HK$12,500 (2007: HK$135,500) and share premium of HK$2,166,000 (2007: HK$18,780,000), as further detailed in note 34 to the financial statements.

At the balance sheet date, the Company had 5,520,000 (2007: 6,670,000) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 5,520,000 additional ordinary shares of the Company and additional share capital of HK$55,200 and share premium of HK$31,465,900 (before share issue expenses).

Notes to Financial Statements

31 December 2008

36. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 26 to 27 of the financial statements.

The contributed surplus of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of Luks Industrial Company Limited pursuant to the Group reorganisation, and the consolidated net asset value of Luks Industrial Company Limited so acquired. Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders under certain prescribed circumstances.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's associates and jointly-controlled entities which are established in the PRC has been transferred to reserve funds which may only be utilised by the Group in accordance with the relevant legislation.

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2007		211,119	512,030	2,138	—	(18,803)	25,650	732,134
Equity-settled share option arrangements	35	—	—	3,904	—	—	—	3,904
Issue of shares		762,613	—	(1,969)	—	—	—	760,644
Loss for the year		—	—	—	—	(6,427)	—	(6,427)
Final 2006 dividend declared		—	—	—	—	—	(25,650)	(25,650)
Interim 2007 dividend	12	—	(17,199)	—	—	—	—	(17,199)
Proposed final 2007 dividend	12	—	(28,427)	—	—	—	28,427	—
At 31 December 2007		973,732	466,404	4,073	—	(25,230)	28,427	1,447,406
Equity-settled share option arrangements	35	—	—	4,498	—	—	—	4,498
Issue of shares		2,166	—	(272)	—	—	—	1,894
Repurchase of shares		(218,250)	—	—	598	(598)	—	(218,250)
Loss for the year		—	—	—	—	(36,041)	—	(36,041)
Final 2007 dividend declared		—	69	—	—	—	(28,427)	(28,358)
Interim 2008 dividend	12	—	(21,788)	—	—	—	—	(21,788)
Proposed final 2008 dividend	12	—	(30,684)	—	—	—	30,684	—
At 31 December 2008		757,648	414,001	8,299	598	(61,869)	30,684	1,149,361

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired by the Company over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus in certain circumstances.

37. Disposal of a Subsidiary

	2008	2007
	HK$'000	HK$'000
Net assets disposed of:		
Cash and bank balances	**218**	—
Other payables and accruals	**(10,586)**	—
	(10,368)	—
Gain on disposal of a subsidiary (note 5)	**10,368**	—
	—	—
Satisfied by:		
Cash	**—**	—

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2008	2007
	HK$'000	HK$'000
Cash consideration	**—**	—
Cash and bank balances disposed of	**(218)**	—
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(218)**	—

38. Note to the Consolidated Cash Flow Statement

Major non-cash transactions

For the year ended 31 December 2008, the Group entered into a finance lease arrangement in respect of property, plant and equipment with capital value at the inception of the lease of HK$100,000 (2007: HK$700,000).

Notes to Financial Statements

31 December 2008

39. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008	2007
	HK$'000	HK$'000
Within one year	**123,663**	89,446
In the second to fifth years, inclusive	**68,352**	41,452
	192,015	130,898

(b) As lessee

The Group leases certain of its land and office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 35 years.

At 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008	2007
	HK$'000	HK$'000
Within one year	**1,048**	752
In the second to fifth years, inclusive	**2,598**	1,918
After five years	**19,294**	22,136
	22,940	24,806

40. Commitments

In addition to the operating lease arrangements detailed in note 39(b) above, the Group had the following capital commitments in respect of property, plant and equipment at the balance sheet date:

	2008	2007
	HK$'000	HK$'000
Contracted, but not provided for	**500,595**	308,655

40. Commitments (Continued)

The Group had the following share of commitment on capital contribution to proposed jointly-controlled entities at the balance sheet date:

	2008 HK$'000	2007 HK$'000
Authorised, but not contracted for	**—**	163,815

At the balance sheet date, the Company did not have any significant commitments.

41. Related Party Transactions

Compensation of key management personnel of the Group:

	2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	**7,137**	8,044
Discretionary bonus	**2,500**	400
Post-employment benefits	**48**	36
Total compensation paid to key management personnel	**9,685**	8,480

Further details of directors' emoluments are included in note 8 to the financial statements.

42. Contingent Liabiities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**30,000**	30,000

The Company has executed guarantees totalling HK$30,000,000 (2007: HK$30,000,000) with respect to banking facilities made available to its subsidiaries, of which HK$8,500,000 (2007: HK$14,500,000) were utilised as at 31 December 2008.

Notes to Financial Statements

31 December 2008

43. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2008 **Group**

Financial assets

	Financial assets at fair value through profit or loss — held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Interest in associates (note 20)	—	130,809	—	130,809
Available-for-sale investments	—	—	416	416
Trade receivables	—	28,826	—	28,826
Financial assets included in prepayments, deposits and other receivables	—	18,176	—	18,176
Debt investments at fair value through profit or loss	1,094	—	—	1,094
Derivative financial instruments	244	—	—	244
Pledged deposits	—	65,660	—	65,660
Cash and cash equivalents	—	468,100	—	468,100
	1,338	711,571	416	713,325

Financial liabilities

	Group Financial liabilities at amortised cost HK$'000
Due to a jointly-controlled entity	21,654
Trade payables	70,172
Financial liabilities included in other payables and accruals	34,029
Due to directors	30,802
Due to a related company	1,852
Interest-bearing bank and other borrowings (note 30)	477,749
Rental deposits	36,436
	672,694

43. Financial Instruments by Category (Continued)

2007 **Group**

Financial assets

	Financial assets at fair value through profit or loss — held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale investments	—	—	458	458
Trade receivables	—	30,160	—	30,160
Financial assets included in prepayments, deposits and other receivables	—	24,994	—	24,994
Debt investments at fair value through profit or loss	1,094	—	—	1,094
Pledged deposits	—	8,109	—	8,109
Cash and cash equivalents	—	843,999	—	843,999
	1,094	907,262	458	908,814

Financial liabilities

	Group Financial liabilities at amortised cost HK$'000
Due to a jointly-controlled entity	21,654
Trade payables	24,236
Financial liabilities included in other payables and accruals	40,642
Due to directors	92
Due to a related company	5,061
Interest-bearing bank and other borrowings (note 30)	303,448
Rental deposits	31,184
	426,317

43. Financial Instruments by Category (Continued)

Financial assets

	Company					
	2008			2007		
	Financial assets at fair value through profit or loss — held for trading HK$'000	**Loans and receivables HK$'000**	**Total HK$'000**	Financial assets at fair value through profit or loss — held for trading HK$'000	Loans and receivables HK$'000	Total HK$'000
Interests in subsidiaries (note 18)	**—**	**821,739**	**821,739**	—	119,820	119,820
Financial assets included in prepayments, deposits and other receivables	**—**	**—**	**—**	—	1,013	1,013
Debt investments at fair value through profit or loss	**1,094**	**—**	**1,094**	1,094	—	1,094
Pledged deposits	**—**	**65,660**	**65,660**	—	8,109	8,109
Cash and cash equivalents	**—**	**201,258**	**201,258**	—	577,985	577,985
	1,094	**1,088,657**	**1,089,751**	1,094	706,927	708,021

Financial liabilities

	Company	
	2008 Financial liabilities at amortised cost HK$'000	2007 Financial liabilities at amortised cost HK$'000
Due to subsidiaries (note 18)	**648,211**	594
Financial liabilities included in other payables and accruals	**6,213**	1,620
Interest-bearing bank and other borrowings (note 30)	**64,702**	38,667
Due to directors	**87**	92
	719,213	40,973

44. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations. The Group does not use derivative financial instruments to hedge its debt obligations. However, management monitors the related cash flow interest rate risk exposure closely and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** HK$'000
2008		
Hong Kong dollar	**100**	**(732)**
Vietnamese Dong	**100**	**(842)**
United States dollar	**100**	**(2,078)**
Hong Kong dollar	**(100)**	**732**
Vietnamese Dong	**(100)**	**842**
United States dollar	**(100)**	**2,078**
2007		
Hong Kong dollar	100	(532)
Vietnamese Dong	100	(273)
United States dollar	100	(1,162)
Hong Kong dollar	(100)	532
Vietnamese Dong	(100)	273
United States dollar	(100)	1,162

Notes to Financial Statements

31 December 2008

44. Financial Risk Management Objectives and Policies (Continued)

Foreign currency risk

The Group is exposed to the risk of fluctuations in exchange rates for its investments in Vietnam. Since VND is a restricted currency and thus hedging instruments are in lack of. In order to minimise the Group's exposure to the foreign currency risk, the Group makes use of its surplus cash flows derived from cement plant and borrowings of VND from local banks to repay loans denominated in US$, and in particular, the loan due to the parent company. In addition, most of the expenditures of the cement plant are in VND. For the investment properties situated in Vietnam, over 90% of the leasing contracts are denominated in US$, whereas most of its expenditures are in VND. Management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency risk should the need arise.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Vietnamese Dong exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in Vietnamese Dong rate	**Increase/ (decrease) in profit before tax**
	%	HK$'000
2008		
If Hong Kong dollar weakens against Vietnamese Dong	**1**	**2,732**
If Hong Kong dollar strengthens against Vietnamese Dong	**(1)**	**(2,732)**
2007		
If Hong Kong dollar weakens against Vietnamese Dong	1	1,822
If Hong Kong dollar strengthens against Vietnamese Dong	(1)	(1,822)

44. Financial Risk Management Objectives and Policies (Continued)

Credit risk

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale financial assets, debt investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. In addition, banking facilities have been put in place for contingency purposes.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

44. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group			**2008**			
	On demand HK$'000	**Less than 12 months HK$'000**	**Less than 2 years HK$'000**	**3 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Trade payables	—	**70,172**	—	—	—	**70,172**
Financial liabilities included in other payables and accruals	—	**34,029**	—	—	—	**34,029**
Due to directors	**30,802**	—	—	—	—	**30,802**
Due to a jointly-controlled entity	**21,654**	—	—	—	—	**21,654**
Due to a related company	**1,852**	—	—	—	—	**1,852**
Interest-bearing bank and other borrowings	—	**193,766**	**87,207**	**192,193**	**42,397**	**515,563**
Rental deposits	—	—	—	**36,436**	—	**36,436**
	54,308	**297,967**	**87,207**	**228,629**	**42,397**	**710,508**

Group			2007			
	On demand HK$'000	Less than 12 months HK$'000	Less than 2 years HK$'000	3 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade payables	—	24,236	—	—	—	24,236
Financial liabilities included in other payables and accruals	—	40,642	—	—	—	40,642
Due to directors	92	—	—	—	—	92
Due to a jointly-controlled entity	21,654	—	—	—	—	21,654
Due to a related company	5,061	—	—	—	—	5,061
Interest-bearing bank and other borrowings	—	137,517	42,848	174,113	—	354,478
Rental deposits	—	—	—	31,184	—	31,184
	26,807	202,395	42,848	205,297	—	477,347

44. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

Company — **2008**

	On demand HK$'000	Less than 12 months HK$'000	Less than 2 years HK$'000	3 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Due to subsidiaries	**648,211**	**—**	**—**	**—**	**—**	**648,211**
Financial liabilities included in other payables and accruals	**—**	**6,213**	**—**	**—**	**—**	**6,213**
Due to directors	**87**	**—**	**—**	**—**	**—**	**87**
Interest-bearing bank and other borrowings	**—**	**22,275**	**21,902**	**22,344**	**—**	**66,521**
	648,298	**28,488**	**21,902**	**22,344**	**—**	**721,032**

Company — 2007

	On demand HK$'000	Less than 12 months HK$'000	Less than 2 years HK$'000	3 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Due to subsidiaries	594	—	—	—	—	594
Financial liabilities included in other payables and accruals	—	1,620	—	—	—	1,620
Due to directors	92	—	—	—	—	92
Interest-bearing bank and other borrowings	—	5,142	36,393	—	—	41,535
	686	6,762	36,393	—	—	43,841

Notes to Financial Statements

31 December 2008

44. Financial Risk Management Objectives and Policies (Continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 2007.

The Group monitors capital using a gearing ratio, which is long-term interest-bearing bank and other borrowings divided by the equity attributable to equity holders of the parent. The Group's policy is to maintain the gearing ratio between 5% and 15%. The gearing ratios as at the balance sheet dates were as follows:

Group

	2008 **HK$'000**	2007 HK$'000
Long-term interest-bearing bank and other borrowings	**295,201**	181,425
Equity attributable to equity holders of the parent	**2,208,716**	2,259,785
Gearing ratio	**13%**	8%

45. Post Balance Sheet Events

Subsequent to 31 December 2008, the Company repurchased 3,760,000 ordinary shares at a cash consideration of approximately HK$8,314,000.

46. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 15 April 2009.

Particulars of Investment Properties

31 December 2008

Location	Use	Tenure	Attributable interest of the Group
Store Rooms 4, 5 and 6 on Upper Basement Floor, Fu Hang Industrial Building, No. 1 Hok Yuen Street, Hung Hom, Kowloon, Hong Kong	Industrial building for rental	Medium-term leases	100%
G/F. to 13/F., Luks Industrial Building, Tuen Mun Town Lot No. 145, No. 6 Tsun Wen Road, Tuen Mun, New Territories, Hong Kong	Industrial building for rental	Medium-term leases	100%
Flat A2, 3/F., Flat B, 4/F., Flat C, 7/F. and Flats A1 & A2, 9/F., Cheong Wah Factory Building, No. 39 - 41 Sheung Heung Road and No. 60 Cheung Ning Street, Tokwawan, Kowloon, Hong Kong	Industrial building for rental	Long-term leases	100%
Workshops E2 & F2, 7/F., Hang Fung Industrial Building, Phase II, No. 2G Hok Yuen Street East, Hung Hom, Kowloon, Hong Kong	Industrial building for rental	Medium-term leases	100%
The whole block of Luks Industrial Building and Dormitory, Xinan 3rd Road, Xinanban Zone No. 28, Bao An Area, Shenzhen, the PRC	Industrial and residential building for rental	Short-term leases	100%
1st and 2nd Floors of the Dormitory, 2nd of 05A, Area 33, Bao An Area, Shenzhen, the PRC	Residential building for rental	Short-term leases	100%
Saigon Trade Centre, No. 37 Ton Duc Thang Street, District 1, Ho Chi Minh City, Vietnam	Commercial building for rental	Medium-term leases	100%
Flats 101, 104-106, 204-206, 304-306, 403-406, 503-506, 604-606, 704-706 and 803-806, Block 3, Mandarin City, Gubei, Shanghai, the PRC	Residential building for rental	Long-term leases	100%

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below.

Results

	Year ended 31 December				
	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
PROFIT FOR THE YEAR	**309,753**	299,902	198,251	25,636	42,865
Attributable to:					
Equity holders of the parent	**312,384**	302,640	200,343	22,413	30,632
Minority interests	**(2,631)**	(2,738)	(2,092)	3,223	12,233
	309,753	299,902	198,251	25,636	42,865

Assets, Liabilities and Minority Interests

	2008	2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(Restated)	(Restated)
TOTAL ASSETS	**3,144,138**	2,877,837	1,594,045	1,350,852	1,349,859
TOTAL LIABILITIES	**(940,737)**	(622,122)	(375,330)	(304,739)	(241,182)
MINORITY INTERESTS	**5,315**	4,070	2,092	—	(43,376)
	2,208,716	2,259,785	1,220,807	1,046,113	1,065,301