上海聯合水泥股份有限公司

Shanghai Allied Cement Limited

(Stock Code : 1060)

ANNUAL REPORT 2008


荣誉证书

山东联合王晁水泥有限公司
山东上联水泥发展有限公司

根据中国质量监督检验协会评价结果，特授予贵单位生产的泰立牌水泥、熟料为：

中国驰名品牌

中國馳名品牌榮譽證書
Certificate for Well-known Brands in China

中國文化管理示範單位
China Culture Management Model Unit


荣誉证书

上海联合水泥有限公司：

为表彰贵单位为我国文化管理所做出的突出贡献，经组委会专家组评审，特授予“中国文化管理示范单位”称号。

山東聯合王晁中央控制室
Central Control Room of Allied Wangchao

南水北調節台兒莊泵站工程
Taier Zhuang Pumping Station Project,
South-to-North water diversion

山東聯合王晁全景
Full View of Allied Wangchao

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Dong Ping *(Chairman)*
(appointed on 23rd April, 2009)
Mr. Ng Qing Hai
(President and Chief Executive Officer)
Dato' Wong Peng Chong *(Vice-President)*
Mr. Zhao Chao
(appointed on 23rd April, 2009)
Mr. Kong Muk Yin

Non-Executive Director

Ms. Chong Sok Un
(resigned on 23rd April, 2009)

Independent Non-Executive Directors

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

EXECUTIVE COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

COMPANY SECRETARY

Ms. Fung Ching Man, Ada

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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333 Lockhart Road
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Web-site	:	http://www.sacl.com.hk

SOLICITORS

P.C. Woo & Co.
Robertsons

AUDITOR

Deloitte Touche Tohmatsu

BANKERS

Hong Kong

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

The People's Republic of China

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SINGAPORE SHARE TRANSFER AGENT

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

STOCK CODE

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

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

OTHER CORPORATE INFORMATION

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Dunzhuang Cun
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Taierzhuang District
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Post Code : 277405
Tel : (86-632) 6812 890
Fax : (86-632) 6818 521/6818 696
E-mail : sac@sdsac.com

Shandong Shanghai Allied Cement Co., Ltd.
Sunsuzhuang
Taierzhuang District
Zaozhuang
Shandong
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Post Code : 277405
Tel : (86-632) 6818 686
Fax : (86-632) 6818 521/6818 696
E-mail : sac@sdsac.com

On behalf of the board of directors (the "Board"), I have the pleasure to present the financial results of Shanghai Allied Cement Limited, together with its subsidiaries, (the "Group") for the year ended 31st December, 2008.

FINANCIAL RESULTS

For the year ended 31st December, 2008, the Group recorded a turnover of HK$552,847,000 (2007: HK$420,683,000) from its continuing operation and achieved a net profit attributable to shareholders of HK$2,487,000 (2007: loss of HK$21,658,000) in a competitive market environment.

Earnings per share (basic) for the year was HK0.34 cents (2007: loss of HK2.97 cents) and the net asset value per share was HK$0.43 (2007: HK$0.40).

DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2008 (2007: nil) in order to preserve cash in light of the global financial turmoil and uncertainties.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Group is primarily engaged in the manufacture and sales of cement and clinker, and slag powders with its principal market in mainland China.

Continuing Operation – Cement and Clinker Business

For the year ended 31st December, 2008, turnover of the Group’s cement and clinker business was HK$552,847,000 (2007: HK$420,683,000) and segment profit was HK$49,637,000 (2007: HK$23,185,000). During the year, the aggregate sales volume of cement and clinker dropped to 2,164,000 tonnes (2007: 2,439,000 tonnes).

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

In 2008, Shanghai SAC achieved a turnover and sales of HK$322,803,000 (2007: HK$255,737,000) and 981,000 tonnes (2007: 995,000 tonnes) respectively. Segment profit was HK$23,248,000 (2007: HK$13,294,000).

During the year under review, against the backdrop of a competitive market environment, Shanghai SAC continued to focus on operational efficiency in its production process resulting in reduction of coal, gypsum and power consumption. In addition to urban wastage recycling, Shanghai SAC further undertook a scientific research project with the Science and Technology Commission of the Shanghai Municipality for the disposal of ashes from waste incineration plant in cement production.

REVIEW OF OPERATIONS *(Continued)*

Continuing Operation - Cement and Clinker Business *(Continued)*

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

Shandong SAC recorded a turnover of HK$74,021,000 (2007: HK$20,456,000) and sales of 291,000 tonnes (2007: 351,000 tonnes) during the year. Segment profit amounted to HK$1,016,000 (2007: loss of HK$10,108,000) due mainly to the focus on cement grinding and rationalizing of production method and workforce to reduce costs and enhance quality.

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

During the year, Allied Wangchao achieved a turnover of HK$156,023,000 (2007: HK$144,490,000) and sales of 892,000 tonnes (2007: 1,093,000 tonnes). Segment profit was HK$25,373,000 (2007: HK$19,999,000).

Allied Wangchao continued its efforts to rationalize its workforce and remuneration system to reduce cost and enhance quality and pursue its commitment to waste recycling technology in cement production.

Discontinued Operation – Slag Powders Business

During the year under review, the turnover and sale of slag powders of Beijing Shanglian Shoufeng Construction Materials Limited ("BSSCML") amounted to HK$4,402,000 (2007: HK$13,617,000) and 11,000 tonnes (2007: 108,000 tonnes) respectively. Segment loss amounted to HK$119,000 (2007: HK$1,453,000). With no positive future prospects for its slag powders business and to avoid further loss, the Group disposed of its entire equity holding in BSSCML during the year for a consideration of RMB4,700,000.

Conditional Acquisition of Redstone

As announced on 29th December, 2008, the conditional acquisition of the entire issued share capital of Redstone Gold Limited ("Redstone"), a company engaged in the business of gold mining in Yunnan Province, the PRC, for an aggregate consideration of HK$1 billion (the "Agreement") was terminated since the Group could not reach agreement on re-negotiation of the terms of the Agreement with the vendors. The termination notice was served on 23rd December, 2008. A supplemental loan agreement and the deed of undertaking have been entered into for the repayment of the refundable deposit and loan to the Group.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

The Group's capital expenditure, daily operations and investments are mainly funded by cash generated from its operations and loans from principal bankers and financial institutions. As at 31st December, 2008, the Group maintained cash reserves of HK$74,283,000 (2007: HK$67,660,000) including pledged short-term bank deposits of HK$13,636,000 (2007: HK$26,391,000). As at 31st December, 2008, the equity attributable to equity holders of the Company amounted to HK$313,074,000 (2007: HK$295,085,000) with total borrowings of HK$525,420,000 (2007: HK$462,310,000). The net current liabilities and high gearing ratio was the result of additional borrowing obtained for financing the refundable deposit and loan for the Agreement.

Subsequent to the balance sheet date, the Group has placed 145 million new shares at HK$0.27 per share to raise a total of HK$39,150,000 to strengthen its capital base and reduce borrowings. The placing was completed in January 2009.

Foreign Exchange Fluctuation

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

Charges on Assets

As of 31st December, 2008, buildings, land use rights, trade receivables and short-term bank deposits with respective carrying values of RMB71,300,000 (2007: nil), HK$16,949,000 (2007: nil), HK$3,409,000 (2007: nil) and HK$13,636,000 (2007: HK$26,391,000) were pledged to banks and financial institutions as collateral mainly to secure short term credit facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICIES

As of 31st December, 2008, the Group, including its subsidiaries but excluding its associates, employed 559 (2007: 634) employees. The remuneration policies of the Group are based on the prevailing market levels and the performance of the respective group companies and individual employees. These policies are reviewed on a regular basis.

RISK MANAGEMENT

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

PROSPECTS

2009 is expected to be a difficult year with weaker consumer and investor confidence coupled with continued adjustments in the equity and property markets in China. With the finalization of the State's RMB4 trillion fiscal stimulus package, together with the implementation of the supportive RMB18 trillion regional investment projects, signs of recovery have emerged. Although the acquisition of Redstone had been terminated, it is still the intention of the Group to diversify into business ventures with good potential for growth. Hence, the Group will continue to identify investment opportunities in companies and businesses in Hong Kong and China that would bring in good cash flow, strong earnings and/or capital appreciation to the Group to enhance shareholder value.

APPRECIATION

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

Ng Qing Hai
President
Hong Kong, 22nd April, 2009

Executive Directors

Mr. Dong Ping, aged 48, appointed on 23rd April, 2009, is the Chairman of the Company. Mr. Dong was graduated from 首都師範大學, the PRC. He was the founder of Asian Union Film and Media (北京保利華億傳媒文化有限公司), which was among the first group of Chinese corporations that engage in film investment. Mr. Dong has been the producer and co-producer of various international renowned films, including Crouching Tiger Hidden Dragon《臥虎藏龍》, Devils on the Doorstep《鬼子來了》, Breaking the Silence《漂亮媽媽》, Jasmine Women《茉莉花開》, Keep Cool《有話好好説》, Peacock《孔雀》, Mei Wan Mei Liao《沒完沒了》 and The Emperor and The Assassin《荊軻刺秦王》. All these films have won numerous major prizes in both domestic and overseas film festivals. From August 2003 to April 2005, he was the president of Asian Union Film and Media. In between 31st May 2005 and 11th January 2008, he was being appointed as an executive director of Media China Corporation Limited (華億媒體有限公司) (formerly known as 華億新媒體(集團)有限公司), and was named as the chairman of the board of directors from 12th May 2006 to 11th January 2008. Mr. Dong has extensive experience, knowledge and connection in investment and operation of Chinese media, advertisement, satellite TV, film productions and media fields. Mr. Dong is the brother-in-law of Mr. Zhao Chao.

Mr. Ng Qing Hai, aged 52, appointed on 15th May, 2001, is the President and Chief Executive Officer of the Company, Mr. Ng is also the deputy managing director of Tian An China Investments Company Limited. He graduated from the Accounting Department of Shanghai Institute of Building Materials in 1983. Mr. Ng became a member of the Association of Registered Accountants of the PRC in 1994. He was admitted as Management Consultant by GROUPE ESSEC of France in 1988, and also became the vice chairman of China Building Materials Enterprises Management Association in 2004 and a fellow of Asian Knowledge Management Association in 2006 and also became the vice chairman of Shanghai Cement Industrials Association in 2008. Mr. Ng has extensive experience in managing enterprises. He is the brother of Mr. Huang Wu Hu (a member of the senior management of the Company).

Dato' Wong Peng Chong, aged 65, appointed on 4th July, 2007, is the Vice President of the Company. Dato' Wong is also the executive director of COL Capital Limited ("COL"). Upon his graduation from the University of Malaya in 1967 with a Bachelor of Arts (Honours), he joined the Malaysian Foreign Service and served with several Malaysian diplomatic missions overseas in various capacities. Dato' Wong joined the private sector in 1985 and has served in various senior management positions, including executive directorships in public listed companies, in Hong Kong and Malaysia.

Mr. Zhao Chao, aged 45, appointed on 23rd April, 2009, is an Executive Director of the Company. Mr. Zhao was a student of Renmin University of China majoring photography between 1987 and 1990. He worked as a journalist at《環球企業資訊》in China Enterprise Management Association between 1990 and 1993. From 1993 to 1995, he took the position of general manager (PRC) at 香港華億集團有限公司. Subsequently from 1995 to 2003, he acted as the vice president of 北大華億影視文化有限責任公司. From 2003 to 21st April 2009, he was the vice president of Asian Union Film and Media. Mr. Dong Ping is the brother-in-law of Mr. Zhao.

During his time in Asian Union Film and Media, Mr. Zhao participated in the planning and distribution of a number of films such as The Emperor and The Assassin《荊軻刺秦王》, Mei Wan Mei Liao《沒完沒了》, Breaking the Silence《漂亮媽媽》, Crouching Tiger Hidden Dragon《臥虎藏龍》, Devils on the Doorstep《鬼子來了》, And the Spring Comes《立春》, Letter from an Unknown Woman《一個陌生女人的來信》, Jasmine Women《茉莉花開》 and Peacock《孔雀》. Moreover, he engaged in the marketing and distribution of a hundred of classic Chinese films and animation films, including Yellow Earth《黃土地》, The Big Parade《大閱兵》, The River Flows Eastwards《一江春水向東流》, Two Stars《銀漢雙星》, Red Sorghum《紅高粱》、 Jigong Versus Cricket《濟公鬥蟋蟀》 and Baby Tadpoles Look for Their Mother《小蝌蚪找媽媽》to the overseas market.

Executive Directors *(Continued)*

Mr. Kong Muk Yin, aged 43, appointed on 4th July, 2007, is an Executive Director of the Company. Mr. Kong is also the executive director of COL. He was graduated from City University of Hong Kong with a bachelor's degree in business studies. He is a fellow member of The Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst and he has extensive experience in corporate finance, financial management, accounting and auditing.

Non-Executive Director

Ms. Chong Sok Un, aged 54, appointed on 25th June, 2007 and resigned on 23rd April, 2009, is a Non-Executive Director of the Company. Ms. Chong is also the chairman of COL and executive director of APAC Resources Limited. She has been chairman of Long Island Golf & Country Club, Dongguan, China since September 1998. She is now the Vice-Chairman of the 30th Term Board of Directors of Yan Oi Tong and Director of Po Leung Kuk for the year 2009-10. During 1992 to 2000, she was appointed as director and chief executive officer of Shenyin Wanguo (H.K.) Limited.

Independent Non-executive Director

Mr. Chen Ching, aged 60, appointed on 27th September, 2004, is an Independent Non-Executive Director of the Company. Mr. Chen is currently a director of China Ocean Management Limited. He was a director of Genesis Energy Holdings Limited from 1999 to 2001. He served as a senior executive in various companies within the food sector and metal sector in the PRC. Mr. Chen has over twenty-four years of experience in financial management.

Mr. Jin Hui Zhi, aged 49, appointed on 14th December, 2004, is an Independent Non-Executive Director of the Company. Mr. Jin is currently the chairman of Shanghai Horizon Investment Co. Ltd. ("Shanghai Horizon") and the deputy president of the Youth Entrepreneur Association of Shanghai. Shanghai Horizon is a company principally engaged in the investment of three major industries, namely bio-engineering, commercial real estate and medical. During the period from 1996 to 2000, he was the general manager and chairman of Shanghai Huaihai Commerce Group. Mr. Jin was formerly chief member of Youth Work Ministry, chief member and deputy director of Research Department, member of Standing Committee and minister of Youth Work Ministry of China Communist Youth League Shanghai Committee. He has extensive experience in the business market. Mr. Jin holds a MBA degree.

Mr. Li Chak Hung, aged 44, appointed on 27th September, 2004, is an independent Non-Executive Director of the Company. He holds a Bachelor's Degree of Business Administration and is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants in the United Kingdom. He has over nineteen years of experience in auditing, accounting and financial management. Mr. Li is also an independent non-executive director of Quality HealthCare Asia Limited. He was an independent non-executive director of Xian Yuen Titanium Resources Holdings Limited (formerly known as Aurora Global Investment Holdings Limited) from September 2005 to April 2007, The Hong Kong Building and Loan Agency Limited from October 2005 to July 2007 and Smart Union Group (Holdings) Limited from April 2006 to October 2008.

Senior Management

Mr. Yu Zhong, aged 47, joined Shanghai Allied Cement Co., Ltd. in December 1993 when the company was first established and is now a Director and the Vice President of Shanghai Allied Cement Co., Ltd., Sales Director of Shanghai Allied Cement Holdings Limited and a Director of Shandong Allied Wangchao Cement Limited. He served as the Executive Deputy General Manager of Shandong Shanghai Allied Cement Co., Ltd. from June 2001 to October 2003. Mr. Yu graduated from Shanghai Institute of Building Materials majoring in cement craftsmanship and Shanghai Light Industry Workers College majoring in Enterprise Management. He is a qualified Economist. Mr. Yu has 27 years of experience in the cement industry and has extensive experience in operation management, marketing and production management.

Mr. Lu Yan, aged 49, joined Shanghai Allied Cement Co., Ltd. in August 1994, is now a Director and Assistant to the General Manager of Shanghai Allied Cement Co., Ltd. and Human Resources Manager of Shanghai Allied Cement Co., Ltd. Mr. Lu graduated from the Economics Management Department of Shanghai TV University and is an Assistant Economist. Mr. Lu has worked in the human resources field for over 20 years and has extensive experience in enterprise management and investment development.

Mr. Huang Wu Hu, aged 56, joined the Group in June 2001 and is the General Manager of Shandong Shanghai Allied Cement Co., Ltd. and a director and the General Manager of Shandong Allied Wangchao Cement Limited. Mr. Huang is a registered planner in the PRC and is a qualified economist. He was awarded the Certificate of Qualified Senior Manager. He is currently a member of the Taierzhuang District CPPCC Standing Committee as well as Zaozhuang City CPPCC Standing Committee. Mr. Huang has extensive experience in operation management. He is an elder brother of Mr. Ng Qing Hai (the President and Chief Executive Officer of the Company).

Mr. Tsai Chuan Ku, aged 59, is the Executive Deputy General Manager of Shandong Allied Wangchao Cement Limited and the Production, Manufacture and Technical Director of Shanghai Allied Cement Holdings Limited. Mr. Tsai joined Shanghai Allied Cement Co., Ltd. in August 1995. Prior to joining the Group, he worked for Chien Tai Cement Co., Ltd. in Taiwan for over twenty years. Mr. Tsai has over thirty-three years of experience in the cement industry. He graduated from the Mechanical Engineering Department of Chung Yuan University in Taiwan.

Mr. Li Chao, aged 45, joined the Group in February 2002, is now the Vice Financial Controller of Shanghai Allied Cement Holdings Limited and a Director and Financial Controller of Shanghai Allied Cement Co., Ltd. Mr. Li has a part-time post-graduate and a senior accountant qualified by the China government. He has served as a financial controller in large enterprises with over 25 years of experience in accounting and financial management.

Ms. Fung Ching Man, Ada, aged 42, joined the Company in July 2007 and is the company secretary of the Company. She is an associate member of The Institute of Chartered Secretaries and Administrators and has 20 years of working experience in the company secretarial profession.

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

CODE ON CORPORATE GOVERNANCE PRACTICES

In the light of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Board has reviewed the corporate governance practices of the Company with the adoption and improvement of the various procedures and documentation which are detailed in this report. The Company has applied the principles of and complied with the applicable code provisions of the CG Code during the year ended 31st December, 2008, except for certain deviations as specified with considered reasons for such deviations as explained below. The Board will review the current practices at least annually and make appropriate changes if considered necessary.

THE BOARD

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

Executive Directors:

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

Non-Executive Director:

Ms. Chong Sok Un

INEDs:

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

THE BOARD *(Continued)*

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 8 to 10.

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

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

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

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

THE BOARD *(Continued)*

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

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

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

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

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

Each of the Independent Non-Executive Directors of the Company was appointed for a specific term but subject to the relevant provisions of the Bye-laws of the Company or any other applicable laws whereby the Directors shall vacate or retire from their office. Such term for each of INED has been renewed for further two years to 31st December, 2010.

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

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee and an Executive Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 13 in the section "The Board" above, have been adopted for the committee meetings so far as practicable.

Remuneration Committee

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

The major roles and functions of the Remuneration Committee are:

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

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

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

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

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

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

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

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

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

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

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

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

The Remuneration Committee shall meet at least once a year. One committee meeting was held in 2008 and the attendance of each member is set out as follows:

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

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

Apart from the Committee meeting, the Remuneration Committee also dealt with matters by way of circulation during 2008. In 2008 and up to date of this report, the Remuneration Committee had performed the work summarised as below:

(i) reviewed the existing remuneration packages of all the Executive Directors and Non-Executive Directors (including the INEDs) for the year ended 31st December, 2007, including the existing policy and structure for the remuneration of Directors; and

(ii) reviewed and recommended for the Board's approval regarding the proposed service fee to the INEDs and the renewal of the term of appointment of the INEDs for two years from 1st January, 2009 to 31st December, 2010.

Each Director will be entitled to a Director's fee which is to be proposed for the shareholders' approval at the AGM of the Company each year. Further remuneration payable to Directors (including any service fees to the INEDs) for their additional responsibilities and services will depend on their respective contractual terms under their employment or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 11 to the consolidated financial statements. Details of the remuneration policy of the Group are also set out in the "Employees and Remuneration Policies" section in the President's Statement on page 6.

The Company's share option scheme was adopted pursuant to a resolution passed by the shareholders of the Company on 23rd May, 2002. No share option was granted under the share option scheme of the Company during the year ended 31st December, 2008, nor there any share option outstanding as at 31st December, 2008.

BOARD COMMITTEES *(Continued)*

Audit Committee

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

The major roles and functions of the Audit Committee are:

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

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

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

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

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

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

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

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

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

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

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

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

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

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

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

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

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

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

The terms of reference of the Audit Committee are available on the Company's website.

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

The Audit Committee shall meet at least twice a year. Four committee meetings were held in 2008 and the attendance of each member is set out as follows:

Committee member	Number of Committee meetings attended/eligible to attend
Mr. Li Chak Hung *(Chairman)*	4/4
Mr. Chen Ching	4/4
Mr. Jin Hui Zhi	4/4

Apart from the Committee meetings, the Audit Committee also dealt with matters by way of circulation during 2008. In 2008 and up to the date of this report, the Audit Committee had performed the work summarised as below:

(i) reviewed and approved the audit scope and fees proposed by the external auditor in respect of the final audit of the Group for the year ended 31st December, 2007 (the "2007 Final Audit") and for the interim results review for the six months ended 30th June, 2008 (the "2008 Interim Review");

(ii) reviewed the external auditor's report of findings in relation to the 2007 Final Audit and the auditor's report of the connected transactions for the year ended 31st December, 2007 where waivers had been granted by the Stock Exchange;

(iii) reviewed the external auditor's independent review report in relation to the 2008 Interim Review;

(iv) reviewed the financial reports for the year ended 31st December, 2007 and for the six months ended 30th June, 2008 and recommended the same to the Board for approval;

(v) reviewed and recommended the revised terms of reference of the Audit Committee to align with the amendment of the code provision C.3.3 of the CG Code contained in Appendix 14 of the Listing Rules for the Board's approval.

BOARD COMMITTEES *(Continued)*

Executive Committee

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

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

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

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

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

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

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from the finance department, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the year ended 31st December, 2008, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance were complied with. Appropriate accounting policies have also been applied consistently.

The reporting responsibilities of the Company's external auditor, Messrs. Deloitte Touche Tohmatsu, are set out in the Independent Auditor's Report on pages 32 to 33.

Internal Control

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

ACCOUNTABILITY AND AUDIT *(Continued)*

External Auditor's Remuneration

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

Services rendered for the Group	**Fee paid/payable** HK$'000
Audit services	1,352
Non-audit services	675
Total:	2,027

COMMUNICATION WITH SHAREHOLDERS

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

The Company's AGM is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and personally chairs the meeting to answer any questions from the shareholders. The chairmen of the Audit Committee and Remuneration Committee or in their absence, another member of the respective committees, are also available to answer questions at the AGM. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM.

The Company's last AGM was held on 26th June, 2008 and the AGM circular was distributed to shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman explained the procedures for demanding and conducting a poll again at the beginning of the last AGM, and revealed the level of proxies voted in respect of each resolution.

The next AGM will be held on 9th June, 2009, the notice of which will be sent to shareholders at least 20 clear business days before the meeting. An explanation of the detailed procedures for conducting a poll will be provided to the shareholders at the commencement of the meeting. The Chairman will answer any questions from shareholders regarding voting by way of a poll. The poll results will be published in accordance with the requirements of the Listing Rules effective on 1st January, 2009.

CORPORATE GOVERNANCE ENHANCEMENT

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

On behalf of the Board
Ng Qing Hai
Chief Executive Officer

Hong Kong, 22nd April, 2009

The directors of the Company (the "Directors") present their report and the audited consolidated financial statements for the year ended 31st December, 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries, jointly controlled entity and associate as at 31st December, 2008 are set out in notes 39, 20 and 21 to the consolidated financial statements respectively.

SUBSIDIARIES, JOINTLY CONTROLLED ENTITY AND ASSOCIATE

Details of the Company's principal subsidiaries, jointly controlled entity and associate as at 31st December, 2008 are set out in notes 39, 20 and 21 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2008 are set out in the consolidated income statement on page 34.

The Directors do not recommend the payment of a dividend for the year ended 31st December, 2008 (2007: nil).

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

Details of movements in the property, plant and equipment and prepaid lease payments of the Group during the year are set out in notes 16 and 17 to the consolidated financial statements respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital and share options of the Company are set out in notes 29 and 30 to the consolidated financial statements respectively.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 37 and in note 38(e) to the consolidated financial statements respectively.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 110.

BORROWINGS

Bank loans and other borrowings repayable within one year or on demand are classified under current liabilities. Details of non-current borrowings are set out in note 28 to the consolidated financial statements.

DIRECTORS

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

Executive Directors:

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

Non-Executive Director:

Ms. Chong Sok Un

Independent Non-Executive Directors:

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

In accordance with the bye-law 87(2) of the Company's Bye-laws. Mr. Ng Qing Hai, Mr. Li Chak Hung and Mr. Jin Hui Zhi shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Directors' biographical details are set out on pages 8 and 9.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at 31st December, 2008, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long position in the shares of the Company

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

Note: As at 31st December, 2008, COL Capital Limited ("COL") held 197,858,680 ordinary shares of the Company. Vigor Online Offshore Limited, a wholly-owned subsidiary of China Spirit Limited ("China Spirit") held 38.56% interest in COL. Ms. Chong maintains 100% beneficial interests in China Spirit. Accordingly, Ms. Chong is deemed to have corporate interests in 197,858,680 ordinary shares of the Company.

On 6th March 2009, COL disposed 197,858,680 ordinary shares in the Company at a price of HK$0.70 per share to Mr. Zhao Chao's controlled corporation.

Save as disclosed above, as at 31st December, 2008, none of the directors, the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

The Company's share option scheme was adopted pursuant to a resolution passed by the shareholders of the Company on 23rd May, 2002. No share option was granted under the share option scheme of the Company during the year ended 31st December, 2008, nor there any share option outstanding as at 31st December, 2008.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' SERVICE CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for approximately 40% and the largest customer accounted for approximately 9% of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 35% and the largest supplier accounted for approximately 8% of the Group's total purchases for the year.

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

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31st December, 2008, the following persons had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Number of shares held	Notes	Percentage to the issued share capital
COL Capital Limited ("COL")	197,858,680	1	27.13%
Vigor Online Offshore Limited ("VOOL")	197,858,680	2	27.13%
China Spirit Limited ("CSL")	197,858,680	3	27.13%
Chong Sok Un ("Ms. Chong")	197,858,680	4	27.13%

Notes:

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

   On 6th March 2009, COL disposed 197,858,680 ordinary shares in the Company at a price of HK$0.70 per share to Mr. Zhao Chao's controlled corporation.

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

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

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

All the interests disclosed above represent long positions. As at 31st December, 2008, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

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

PRE-EMPTIVE RIGHTS

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

CONTINUING CONNECTED TRANSACTIONS

Pursuant to the leasing agreement dated 16th December, 1995 entered into between Shanghai Allied Cement Co., Ltd. ("Shanghai SAC"), which became a subsidiary of the Company on 14th March, 2002 subsequent to the amendment of its joint venture contract and joint venture articles, and Shanghai Cement Factory ("SCF"), a substantial shareholder of Shanghai SAC, certain equipments and facilities were leased from SCF for the use of Shanghai SAC (the "Transaction"). The aggregate amount of the Transaction for the year ended 31st December, 2008 amounted to HK$6,747,000. The Company has been granted a waiver by the Stock Exchange from the strict compliance of the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of the Transaction.

The Independent Non-Executive Directors have reviewed the Transaction for 2008 and confirmed that the Transaction was:

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

(ii) conducted on normal commercial terms;

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

(iv) the aggregate annual amount of the Transaction in 2008 was within the relevant maximum amount as agreed by the Stock Exchange.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31st December, 2008.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 11 to 24.

PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements for the year ended 31st December, 2008 were audited by Messrs. Deloitte Touche Tohmatsu. A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Ng Qing Hai
Chief Executive Officer

Hong Kong, 22nd April, 2009

Deloitte.
德勤

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

We have audited the consolidated financial statements of Shanghai Allied Cement Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 34 to 109, which comprise the consolidated balance sheet as at 31st 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 CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

AUDITOR’S RESPONSIBILITY *(Continued)*

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22nd April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Continuing operation:			
Turnover	8	**552,847**	420,683
Cost of sales		**(509,121)**	(390,415)
Gross profit		**43,726**	30,268
Other income	9	**82,299**	31,595
Distribution and selling expenses		**(8,178)**	(7,274)
Administrative expenses		**(34,173)**	(36,431)
Allowance for bad and doubtful debts		**(410)**	(4,195)
Bad and doubtful debts recovered		**2,866**	2,163
Gain on disposal of subsidiaries		**–**	2,330
Finance costs	10	**(73,923)**	(33,598)
Profit (loss) before taxation		**12,207**	(15,142)
Taxation (charge) credit	12	**(1,857)**	1,400
Profit (loss) from continuing operation		**10,350**	(13,742)
Discontinued operation:			
Profit (loss) for the year from discontinued operation	13	**139**	(1,453)
Profit (loss) for the year	14	**10,489**	(15,195)
Attributable to:			
Equity holders of the Company		**2,487**	(21,658)
Minority interests		**8,002**	6,463
		10,489	(15,195)
		HK cents	HK cents
Earnings (loss) per share	15		
From continuing and discontinued operations			
Basic		**0.34**	(2.97)
From continuing operation			
Basic		**0.32**	(2.77)

CONSOLIDATED BALANCE SHEET

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	16	**471,596**	465,024
Prepaid lease payments on land use rights	17	**16,510**	15,867
Goodwill	18	**69,479**	69,479
Mining right	19	**7,770**	7,436
Interest in a jointly controlled entity	20	**–**	–
Interest in an associate	21	**–**	–
Refundable deposit and loan receivable	22	**–**	202,556
		565,355	760,362
Current assets			
Properties held for sale	23	**1,333**	1,248
Prepaid lease payments on land use rights	17	**439**	411
Inventories	24	**48,554**	39,473
Trade and other receivables and deposits	25	**228,240**	253,971
Refundable deposit and loan receivable	22	**241,219**	–
Prepayments		**18,604**	8,615
Amount due from a minority shareholder	36	**–**	1,281
Tax recoverable		**721**	–
Pledged short-term bank deposits	26	**13,636**	26,391
Bank balances and cash	26	**60,647**	41,269
		613,393	372,659
Current liabilities			
Trade and other payables and deposits received	27	**94,647**	142,118
Dividends payable to a minority shareholder	36	**–**	738
Amount due to former ultimate holding company	36	**14,820**	12,841
Amount due to a minority shareholder	36	**4,876**	–
Amount due to a related company	36	**2,283**	777
Tax liabilities		**1,377**	3,329
Borrowings due within one year	28	**515,079**	242,310
		633,082	402,113
Net current liabilities		**(19,689)**	(29,454)
Total assets less current liabilities		**545,666**	730,908

CONSOLIDATED BALANCE SHEET

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	29	**182,349**	182,349
Reserves		**130,725**	112,736
Equity attributable to equity holders of the Company		**313,074**	295,085
Minority interests		**192,882**	186,677
Total equity		**505,956**	481,762
Non-current liabilities			
Amount due to a minority shareholder	36	**450**	400
Borrowings due after one year	28	**10,341**	220,000
Deferred taxation	31	**28,919**	28,746
		39,710	249,146
		545,666	730,908

The consolidated financial statements on pages 34 to 109 were approved and authorised for issue by the Board of Directors on 22nd April, 2009 and are signed on its behalf by:

Ng Qing Hai
DIRECTOR

Dato' Wong Peng Chong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2008

	Attributable to equity holder of the Company										
	Share capital HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Merger reserve HK$'000 (Note a)	Capital reserve HK$'000	Other reserves HK$'000 (Note b)	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2007	182,349	918	44,203	10,493	1,799	824	14,108	45,953	300,647	173,093	473,740
Exchange difference arising on translation of presentation currency recognised directly in equity	–	–	–	16,096	–	–	–	–	16,096	10,807	26,903
(Loss) profit for the year	–	–	–	–	–	–	–	(21,658)	(21,658)	6,463	(15,195)
Total recognised income and expense for the year	–	–	–	16,096	–	–	–	(21,658)	(5,562)	17,270	11,708
Dividends paid to a minority shareholder	–	–	–	–	–	–	–	–	–	(3,686)	(3,686)
At 31st December, 2007	**182,349**	**918**	**44,203**	**26,589**	**1,799**	**824**	**14,108**	**24,295**	**295,085**	**186,677**	**481,762**
Exchange difference arising on translation of presentation currency recognised directly in equity	**–**	**–**	**–**	**16,211**	**–**	**–**	**–**	**–**	**16,211**	**12,612**	**28,823**
Transfer to profit or loss on disposal of a subsidiary	**–**	**–**	**–**	**(709)**	**–**	**–**	**–**	**–**	**(709)**	**(1,448)**	**(2,157)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,487**	**2,487**	**8,002**	**10,489**
Total recognised income and expense for the year	**–**	**–**	**–**	**15,502**	**–**	**–**	**–**	**2,487**	**17,989**	**19,166**	**37,155**
Transfer to other reserves	**–**	**–**	**–**	**–**	**–**	**–**	**1,017**	**(1,017)**	**–**	**–**	**–**
Acquisition of additional interest in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,230)**	**(5,230)**
Dividends paid to a minority shareholder	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,731)**	**(7,731)**
At 31st December, 2008	**182,349**	**918**	**44,203**	**42,091**	**1,799**	**824**	**15,125**	**25,765**	**313,074**	**192,882**	**505,956**

Notes:

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

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

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Profit (loss) for the year	**10,489**	(15,195)
Taxation charge (credit) for continuing operation	**1,857**	(1,400)
Profit (loss) before taxation	**12,346**	(16,595)
Adjustments for:		
Allowance for bad and doubtful debts	**410**	5,820
Bad and doubtful debts recovered	**(2,866)**	(2,218)
Depreciation and amortisation	**28,691**	26,837
Release of prepaid lease payments on land use rights	**439**	411
(Gain) loss on disposal and write off of property, plant and equipment	**(39)**	839
Finance costs	**73,923**	33,598
Interest income	**(39,944)**	(4,123)
Gain on disposal of subsidiaries	**(258)**	(2,330)
Effect of foreign exchange rate changes	**(8,800)**	(6,149)
OPERATING CASH INFLOW BEFORE MOVEMENTS IN WORKING CAPITAL	**63,902**	36,090
Decrease in properties held for sale	**–**	1,148
Increase in inventories	**(6,994)**	(544)
Decrease (increase) in trade and other receivables, deposits and prepayments	**25,428**	(46,025)
Decrease in amounts due from fellow subsidiaries	**–**	2,044
Decrease (increase) in amount due from a minority shareholder	**1,281**	(1,281)
(Decrease) increase in trade and other payables and deposits received	**(48,349)**	22,137
Increase in amount due to former ultimate holding company	**1,139**	4,224
Decrease in amount due to a fellow subsidiary	**–**	(1,225)
Increase (decrease) in amount due to a related company	**1,506**	(158)
Cash generated from operations	**37,913**	16,410
Income tax paid	**(6,167)**	(2,391)
NET CASH FROM OPERATING ACTIVITIES	**31,746**	14,019

	NOTE	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(17,499)**	(3,699)
Acquisition of additional interest in a subsidiary		**(5,230)**	–
Decrease in pledged bank deposits		**14,554**	–
Proceeds from disposal of property, plant and equipment		**2,010**	376
Disposal of subsidiaries, net of cash and cash equivalents	35	**1,572**	1,758
Interest received		**1,129**	1,567
Increase in refundable deposit and loan receivable		**–**	(200,000)
NET CASH USED IN INVESTING ACTIVITIES		**(3,464)**	(199,998)
FINANCING ACTIVITIES			
Repayments of loans		**(116,207)**	(189,956)
Interest paid		**(62,357)**	(32,922)
Dividends paid to a minority shareholder		**(8,469)**	(2,948)
Repayment from (advance to) a minority shareholder		**4,876**	(5,291)
New loans raised		**170,809**	423,184
Repayment to a fellow subsidiary		**–**	(9,603)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(11,348)**	182,464
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**16,934**	(3,515)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**41,269**	42,192
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**2,444**	2,592
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**60,647**	41,269

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and The Singapore Exchange Securities Trading Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are set out in note 39.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group has net current liabilities of approximately HK$19,689,000 as at 31st December, 2008. In the opinion of the directors of the Company, the cash flows from operations, the proceeds from the issue of new shares and the extension of repayment term of credit facilities after the balance sheet date as explained in note 37 will provide adequate funds to enable the Group to meet in full its financial obligations as they fall due. The consolidated financial statements have therefore been prepared on a going concern basis.

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

In the current year, the Group has applied the following amendments and interpretations ("New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 and HKFRS 7 (Amendments)	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

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

The adoption of these New HKFRSs had no material effect on how the Group's results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combinations[3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[2]
HKFRS 8	Operating segments[2]
HK(IFRIC) – INT 9 & HKAS 39 (Amendment)	Embedded derivatives[4]
HK(IFRIC) – INT 13	Customer loyalty programmes[5]
HK(IFRIC) – INT 15	Agreements for the construction of real estate[2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation[6]
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners[3]
HK(IFRIC) – INT 18	Transfer of assets from customers[7]

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009.
2 Effective for annual periods beginning on or after 1st January, 2009.
3 Effective for annual periods beginning on or after 1st July, 2009.
4 Effective for annual periods ending on or after 30th June, 2009.
5 Effective for annual periods beginning on or after 1st July, 2008.
6 Effective for annual periods beginning on or after 1st October, 2008.
7 Effective for transfers on or after 1st July, 2009.

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

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for change in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transaction.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except certain financial instruments which are measured at fair value as explained in the accounting polices set out below.

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

Basis of consolidation

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

Acquisition of additional interests in a subsidiary

The cost of the acquisition is measured at the consideration paid for the additional interest. The goodwill is calculated as the difference between the consideration paid and the carrying amount of the net assets of the subsidiary attributable to the additional interest acquired.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities

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

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Investments in associates

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Revenue recognition

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

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

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

Mining right

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment other than goodwill

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

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

Leasing

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

The Group as lessee

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

Prepaid lease payments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties held for sale

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

Inventories

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

Taxation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Foreign currencies

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation before 1st January, 2005 is treated as non-monetary foreign currency items of the acquirer and reporting using the historical cost prevailing at the date of acquisition.

Government grants

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

Retirement benefit costs

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a part to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Effective interest method

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

Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of loans and receivables

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

Objective evidence of impairment could include:

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

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

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of loans and receivables *(Continued)*

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

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities

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

Equity instruments

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

Derecognition

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The following are 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.

Allowances for bad and doubtful debts

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December, 2008, the carrying amount of goodwill was HK$69,479,000 (2007: HK$69,479,000). Details of the recoverable amount calculation are disclosed in note 18.

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes borrowings disclosed in note 28 and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits. The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008	2007
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**543,742**	525,468
Financial liabilities		
Amortised cost	**626,119**	610,514

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables and deposits, refundable deposit and loan receivable, pledged short-term bank deposits, bank balances, trade and other payables and deposits received, amounts due to former ultimate holding company/a minority shareholder/a related company and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risks

Interest rate risk

The Group's fair value interest rate risk relates primarily to certain fixed-rate pledged short-term bank deposits and borrowings (see note 28 for details of these borrowings). The Group has not used any derivative contracts to hedge these exposure to interest rate risk.

The Group's cash flow interest rate risk primarily relates to variable-rate refundable deposit and loan receivable, bank balances and borrowings. The Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, the management monitors interest rate exposure and will consider necessary actions when significant interest rate exposure is anticipated.

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments relating to floating-rate borrowings as at 31st December, 2008 and relating to floating-rate borrowings and variable-rate loan receivable as at 31st December, 2007. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. A 100 basis points (2007: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2007: 100 basis points) higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31st December, 2008 would decrease/increase by HK$973,000 (2007: loss would increase/decrease by HK$387,000)

The Group's sensitivity to interest rates has decreased during the year mainly due to the change of loan receivable from variable-rate to fixed-rate.

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

Foreign currency risk

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

As at balance sheet date, the Group has refundable deposit and loan receivable denominated in HK$ and certain bank balances denominated in HK$ and United States Dollars ("USD") amounting to approximately HK$241,219,000 (2007: HK$202,556,000), HK$1,119,000 (2007: HK$5,386,000), and HK$1,966,000 (2007: HK$29,000) respectively and borrowings denominated in HK$ amounting to HK$383,021,000 (2007: HK$337,521,000), which are the currencies other than the functional currency of the respective group entities.

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

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

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risks *(Continued)*

Foreign currency risk (Continued)

The following table details the Group's sensitivity to a 5% (2007: 5%) increase and decrease in RMB against USD and 5% (2007: 5%) increase and decrease in RMB against HK$. 5% (2007: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes only USD and HK$ bank balances, refundable deposit and loan receivable and borrowings denominated in HK$, and adjusts their translation at the year end for a 5% (2007: 5%) change in foreign currency rates. A positive number below indicates an increase in profit/decrease in loss where RMB strengthen 5% (2007: 5%) against the relevant currency. For a 5% (2007: 5%) weakening of RMB against in the USD and HK$, there would be an equal and opposite impact on the profit/loss for the year, and the balance below would be negative.

	HK$		**USD**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Profit or loss for the year	**7,034**	6,479	**(98)**	(1)

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, refundable deposit and loan receivable, pledged short-term bank deposits and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group in the event of the counterparties' failure to perform their obligations as at 31st December, 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual debt and refundable deposit and loan receivable regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significant reduced.

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

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

The Group has significant concentration of credit risk on refundable deposit and loan receivable as the credit risk is mainly attributable from one counterparty. As the refundable deposit and loan receivable are secured by share mortgages, the estimated fair value of which are greater than the carrying amount of the refundable deposit and loan receivable, in the opinion of the directors of the Company, the credit risk is significantly reduced. The details of the secured assets are disclosed in note 22. Other than this, there is no significant concentration of credit risk on trade and other receivables as the exposure spread over a number of counterparties and customers.

Liquidity risk

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

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

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	5 + years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008								
Borrowings – fixed rate	17.66	10,592	1,109	430,746	–	–	442,447	405,922
Borrowings – variable rate	5.41	71,022	9,080	30,381	11,595	–	122,078	119,498
Trade and other payables	–	32,668	6,392	39,210	–	–	78,270	78,270
Amount due to a related company	–	2,283	–	–	–	–	2,283	2,283
Amount due to former ultimate holding company	–	14,820	–	–	–	–	14,820	14,820
Amount due to a minority shareholder	5.58	4,876	–	–	–	3,181	8,057	5,326
		136,261	16,581	500,337	11,595	3,181	667,955	626,119

7. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity and interest risk tables (Continued)

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

Fair values

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

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

8. SEGMENT INFORMATION

For management purpose, the Group has one operating division in its continuing operation, which is distribution and manufacturing of cement and clinker. Distribution and manufacturing of slag powders has been discontinued during the year ended 31st December, 2008. The operating division is the basis on which the Group reports its primary segment information. The Group's operation is principally located in the PRC. An analysis of the Group's revenue and segment results by business segments is as follows:

Business segments

(1) Segment revenue

	Continuing operation	Discontinued operation	
	Distribution and manufacturing of cement and clinker	Distribution and manufacturing of slag powders	Consolidated
	HK$'000	HK$'000	HK$'000
For the year ended 31st December, 2008			
Segment revenue	**552,847**	**4,402**	**557,249**
Segment results	**49,637**	**(119)**	**49,518**
Corporate income	**50,741**	**258**	**50,999**
Corporate expenses	**(14,248)**	**–**	**(14,248)**
Finance costs	**(73,923)**	**–**	**(73,923)**
Profit before taxation	**12,207**	**139**	**12,346**
Taxation charge	**(1,857)**	**–**	**(1,857)**
Profit for the year	**10,350**	**139**	**10,489**

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(1) ***Segment revenue*** *(Continued)*

	Continuing operation	Discontinued operation	
	Distribution and manufacturing of cement and clinker	Distribution and manufacturing of slag powders	Consolidated
	HK$'000	HK$'000	HK$'000
For the year ended 31st December, 2007			
Segment revenue	420,683	13,617	434,300
Segment results	23,185	(1,453)	21,732
Corporate income	9,512	–	9,512
Corporate expenses	(14,241)	–	(14,241)
Finance costs	(33,598)	–	(33,598)
Loss before taxation	(15,142)	(1,453)	(16,595)
Taxation credit	1,400	–	1,400
Loss for the year	(13,742)	(1,453)	(15,195)

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(2) Balance sheet

	Distribution and manufacturing of cement and clinker HK$'000
2008	
ASSETS	
Segment assets	
Mining right	7,770
Goodwill	69,479
Other assets	785,276
	862,525
Corporate assets	316,223
Consolidated total assets	1,178,748
LIABILITIES	
Segment liabilities	74,032
Corporate liabilities	598,760
Consolidated total liabilities	672,792

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(2) ***Balance sheet*** *(Continued)*

	Distribution and manufacturing of cement and clinker HK$'000	Distribution and manufacturing of slag powders HK$'000	Consolidated HK$'000
2007			
ASSETS			
Segment assets			
Mining right	7,436	–	7,436
Goodwill	69,479	–	69,479
Other assets	761,066	24,824	785,890
	837,981	24,824	862,805
Corporate assets			270,216
Consolidated total assets			1,133,021
LIABILITIES			
Segment liabilities	137,258	7,633	144,891
Corporate liabilities			506,368
Consolidated total liabilities			651,259

8. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(3) Other information

	Continuing operation			Discontinued operation	
	Distribution and manufacturing of cement and clinker	Unallocated	Total	Distribution and manufacturing of slag powders	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2008					
Additions to property, plant and equipment	**17,177**	**245**	**17,422**	**77**	**17,499**
Depreciation and amortisation and release of prepaid lease payments on land use rights	**28,712**	**20**	**28,732**	**398**	**29,130**
Allowance for bad and doubtful debts	**245**	**165**	**410**	**–**	**410**
Bad and doubtful debts recovered	**(2,866)**	**–**	**(2,866)**	**–**	**(2,866)**
2007					
Additions to property, plant and equipment	3,620	–	3,620	79	3,699
Depreciation and amortisation and release of prepaid lease payments on land use rights	26,467	34	26,501	747	27,248
Allowance for bad and doubtful debts	4,195	–	4,195	1,625	5,820
Bad and doubtful debts recovered	(2,163)	–	(2,163)	(55)	(2,218)

8. SEGMENT INFORMATION *(Continued)*

Geographical segments

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

Almost 100% of each segment revenue is derived from customers located in the PRC.

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**863,142**	862,300	**17,254**	3,699
Hong Kong	**–**	–	**245**	–
	863,142	862,300	**17,499**	3,699

9. OTHER INCOME

	Continuing operation		Discontinued operation		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income	**39,944**	4,123	**–**	–	**39,944**	4,123
Gain on disposal of property, plant and equipment	**39**	**–**	**–**	–	**39**	–
Subsidy income	**3,653**	–	**–**	–	**3,653**	–
Net foreign exchange gain	**10,429**	6,004	**–**	–	**10,429**	6,004
Refund of value-added tax	**19,711**	15,685	**465**	1,439	**20,176**	17,124
Sundry income	**8,523**	5,783	**1**	3	**8,524**	5,786
	82,299	31,595	**466**	1,442	**82,765**	33,037

10. FINANCE COSTS

	Continuing operation and consolidated	
	2008	2007
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**13,096**	15,136
Imputed interest on interest-free amount due to a minority shareholder and former fellow subsidiaries	**51**	676
Other borrowing costs	**60,776**	17,786
Total	**73,923**	33,598

11. DIRECTORS AND EMPLOYEES' EMOLUMENTS

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

Directors' emoluments

	2008				2007			
		Other emoluments				Other emoluments		
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000	Directors' fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Ng Qing Hai	10	1,716	72	1,798	10	1,557	72	1,639
Dato' Wong Peng Chong	120	433	–	553	–	233	–	233
Kong Muk Yin	120	390	–	510	–	187	–	187
Chong Sok Un	120	–	–	120	–	–	–	–
Chen Ching	10	70	–	80	10	70	–	80
Jin Hui Zhi	10	70	–	80	10	70	–	80
Li Chak Hung	10	90	–	100	10	90	–	100
Li Chi Kong*	–	–	–	–	5	77	4	86
Wong Ping, Iris*	–	–	–	–	5	–	–	5
Total	400	2,769	72	3,241	50	2,284	76	2,410

* The directors resigned on 4th July, 2007.

Notes:

(a) Certain directors of the Company received remuneration from a related company of the Company. A wholly-owned subsidiary of the substantial shareholder of the Company provided administrative services to the Group and is reimbursed by the Group the administrative expenses as disclosed in note 36 (iii) for sharing of facilities utilities and for services provided by those directors as well as other management personnel, on cost basis. The above-mentioned reimbursement of administrative expenses commenced in July 2007 and is calculated by reference to time devoted by the management personnel on affairs of the Group and can be apportioned to the directors mentioned above. The total of such apportioned amounts, which have been included in the above table is HK$823,000 (2007: HK$420,000).

(b) Certain directors of the Company received remuneration from a company, or a wholly-owned subsidiary of such company, which has significant beneficial interests in the Company's former ultimate holding company. Such companies provided management services to the Group and charged the Group a fee, which is included in management fee as disclosed in note 36(iv), for services provided by those directors as well as other management personnel who are not directors of the Company. The above-mentioned management fee commenced to be charged in 2005 and is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the directors mentioned above. During the year ended 31st December, 2007, the total of such apportioned amounts, which have been included in the above table, is HK$81,000.

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

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

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

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

Employees' emoluments

The five highest paid individuals included one (2007: one) director of the Company, whose emoluments are disclosed above. The emoluments of the remaining four (2007: four) highest paid individuals for the year ended 31st December, 2008 which were individually less than HK$1,000,000 were as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and other benefits	**1,835**	1,406
Performance related bonuses	**–**	114
Contributions to retirement benefit schemes	**40**	33
	1,875	1,553

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

12. TAXATION (CHARGE) CREDIT

	Continuing operation and consolidated	
	2008	2007
	HK$'000	HK$'000
Current tax		
– PRC Enterprise Income Tax	**(6,576)**	(4,044)
– Overprovision in prior year	**2,976**	–
	(3,600)	(4,044)
Deferred tax (note 31)		
– current year	**1,743**	2,925
– attributable to a change on tax rate	**–**	2,519
Taxation (charge) credit	**(1,857)**	1,400

No provision for Hong Kong Profits Tax has been made as the group companies operating in Hong Kong do not have any assessable profit for both years. On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% with effect from the year of assessment 2008/2009.

Shanghai Allied Cement Company Limited and Shandong Allied Wangchao Cement Limited enjoy PRC Enterprise Income Tax rate of 27% since they are located in designated coastal cities engaging in the manufacturing business. On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 27% to 25% for Shanghai Allied Cement Company Limited and Shandong Allied Wangchao Cement Limited from 1st January, 2008. At 31st December, 2007, the deferred tax balance had been adjusted to reflect the tax rates that were expected to apply to the respective periods when the asset was realised or the liability was settled.

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

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

	2008	2007
	HK$'000	HK$'000
Profit (loss) before taxation:		
Continuing operation	**12,207**	(15,142)
Discontinued operation	**139**	(1,453)
	12,346	(16,595)
Tax at the domestic income tax rate of 25% (2007: 27%)	**(3,086)**	4,481
Tax effect of expenses not deductible for tax purpose	**(13,624)**	(6,027)
Tax effect of income not taxable for tax purpose	**10,907**	1,619
Tax effect of tax loss not recognised	**(2,582)**	(6,038)
Tax effect of utilisation of tax losses previously not recognised	**61**	2,833
Effect of tax exemption granted to a PRC subsidiary	**6,077**	5,479
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,217)**	(3,466)
Decrease in opening deferred tax liability resulting from a decrease in tax rate	**–**	2,519
Overprovision in prior year	**2,976**	–
Others	**(369)**	–
Taxation (charge) credit for the year	**(1,857)**	1,400

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

13. DISCONTINUED OPERATION

During the year, the Group entered into a share transfer agreement (the "Agreement") to sell its interest in the registered and paid-up capital of Beijing Shanglian Shoufeng Construction Materials Limited ("BSSCML"), an indirect subsidiary of the Company which was beneficially owned as to 80% by the Group and 20% by the purchaser (the "Purchaser"), for an aggregate consideration of RMB4,700,000 to be satisfied in cash. The disposal was completed and the control of BSSCML was passed to the Purchaser during the year.

The profit (loss) for the year from the discontinued operation is analysed as follows:

	2008 **HK$'000**	2007 HK$'000
Loss of distribution and manufacturing of slag powders operation for the year	**(119)**	(1,453)
Gain on disposal of distribution and manufacturing of slag powders operation (see note 35)	**258**	–
	139	(1,453)

13. DISCONTINUED OPERATION *(Continued)*

The results of the distribution and manufacturing of slag powders operation for the period from 1st January, 2008 to the date of disposal, which have been included in the consolidated income statement, were as follows:

	Period from 1st January, 2008 to the date of disposal HK$'000	Year ended 31st December, 2007 HK$'000
Turnover	**4,402**	13,617
Cost of sales	**(4,455)**	(12,390)
Other income	**466**	1,442
Distribution expenses	**(236)**	(560)
Administrative expenses	**(296)**	(1,992)
Allowance for bad and doubtful debts	**–**	(1,625)
Bad and doubtful debts recovered	**–**	55
Loss before taxation	**(119)**	(1,453)
Taxation	**–**	–
Loss for the period/year	**(119)**	(1,453)

No charge or credit arose on loss on discontinuance of the operation.

The carrying amounts of the assets and liabilities of BSSCML, at the date of disposal are disclosed in note 35.

During the year, BSSCML contributed HK$11,025,000 (1.1.2007 to 31.12.2007: paid HK$445,000) to the Group's net operating cash flows, HK$77,000 (1.1.2007 to 31.12.2007: HK$40,000) in respect of investing activities.

14. PROFIT (LOSS) FOR THE YEAR

	Continuing operation		Discontinued operation		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit (loss) for the year has been arrived at after charging:						
Staff costs						
Directors' remuneration (note 11)	**3,241**	2,410	**–**	–	**3,241**	2,410
Less: Apportionment of management fee and administrative expense	**823**	501	**–**	–	**823**	501
	2,418	1,909	**–**	–	**2,418**	1,909
Contributions to retirement benefit schemes – other staff	**5,217**	4,920	**23**	159	**5,240**	5,079
Other staff costs	**22,904**	19,477	**622**	1,462	**23,526**	20,939
	30,539	26,306	**645**	1,621	**31,184**	27,927
Auditor's remuneration	**1,561**	1,546	**–**	–	**1,561**	1,546
Cost of inventories recognised as an expense	**509,121**	390,415	**4,455**	12,390	**513,576**	402,805
Amortisation of mining right (included in administrative expenses)	**173**	162	**–**	–	**173**	162
Depreciation of property, plant and equipment	**28,120**	25,928	**398**	747	**28,518**	26,675
Total amortisation and depreciation	**28,293**	26,090	**398**	747	**28,691**	26,837
Release of prepaid lease payments on land use rights	**439**	411	**–**	–	**439**	411
Rental payments for premises under operating leases	**830**	848	**176**	330	**1,006**	1,178
Rental payments for plant and machinery under operating leases	**777**	1,542	**–**	–	**777**	1,542
Loss on disposal and write-off of property, plant and equipment	**–**	–	**–**	839	**–**	839

15. EARNINGS (LOSS) PER SHARE

From continuing and discontinued operations

The calculation of the basic earnings (loss) per share is based on 729,395,043 (2007: 729,395,043) shares in issue throughout the year.

From continuing operation

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

Profit (loss) figures are calculated as follows:

	2008 **HK$'000**	2007 HK$'000
Profit (loss) for the year attributable to equity holders of the Company	**2,487**	(21,658)
Less: Profit (loss) for the year from discontinued operation	**139**	(1,453)
Profit (loss) for the purposes of basic earnings (loss) per share from continuing operation	**2,348**	(20,205)

From discontinued operation

Basic earnings per share for the discontinued operation is HK0.02 cents (2007: loss of HK0.20 cents) per share.

The calculation of the basic earnings (loss) per share for the discontinued operation was based on the profit for the year of HK$139,000 (2007: loss of HK$1,453,000) attributable to the equity holders of the Company.

No diluted earnings (loss) per share has been presented because all share options outstanding were lapsed during the year 2007.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Construction in progress	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP							
COST							
At 1st January, 2007	255,184	618	450,260	275	3,444	7,554	717,335
Effect of exchange adjustments	16,243	28	28,827	18	192	461	45,769
Additions	69	–	1,163	1,317	299	851	3,699
Disposals and write-off	–	(187)	(1,329)	–	(168)	(306)	(1,990)
Reclassification	47	–	111	(196)	38	–	–
At 31st December, 2007	**271,543**	**459**	**479,032**	**1,414**	**3,805**	**8,560**	**764,813**
Effect of exchange adjustments	**18,466**	**31**	**32,755**	**96**	**241**	**561**	**52,150**
Additions	**2,861**	**–**	**3,404**	**10,295**	**76**	**863**	**17,499**
Disposals and write-off	**(162)**	**–**	**(1,966)**	**–**	**(68)**	**(652)**	**(2,848)**
Disposal of a subsidiary	**(1,703)**	**–**	**(12,609)**	**(127)**	**(161)**	**(130)**	**(14,730)**
Reclassification	**1,598**	**–**	**10,074**	**(11,678)**	**6**	**–**	**–**
At 31st December, 2008	**292,603**	**490**	**510,690**	**–**	**3,899**	**9,202**	**816,884**
DEPRECIATION							
At 1st January, 2007	66,301	418	184,627	–	2,373	3,807	257,526
Effect of exchange adjustments	4,202	23	11,785	–	131	222	16,363
Provided for the year	8,067	29	17,535	–	347	697	26,675
Eliminated on disposals and write-off	–	(66)	(325)	–	(136)	(248)	(775)
At 31st December, 2007	**78,570**	**404**	**213,622**	**–**	**2,715**	**4,478**	**299,789**
Effect of exchange adjustments	**5,325**	**28**	**14,569**	**–**	**169**	**283**	**20,374**
Provided for the year	**8,717**	**40**	**18,651**	**–**	**323**	**787**	**28,518**
Eliminated on disposals and write-off	**(11)**	**–**	**(317)**	**–**	**(60)**	**(489)**	**(877)**
Disposal of a subsidiary	**(256)**	**–**	**(2,058)**	**–**	**(99)**	**(103)**	**(2,516)**
At 31st December, 2008	**92,345**	**472**	**244,467**	**–**	**3,048**	**4,956**	**345,288**
CARRYING VALUES							
At 31st December, 2008	**200,258**	**18**	**266,223**	**–**	**851**	**4,246**	**471,596**
At 31st December, 2007	192,973	55	265,410	1,414	1,090	4,082	465,024

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

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

Buildings	2.7% – 10%
Leasehold improvements	4.5% – 10%
Plant and machinery	4% – 8%
Furniture, fixtures and equipment	15% – 20%
Motor vehicles	18% – 25%

At 31st December, 2008, the Group pledged its buildings with carrying amount of approximately RMB71.3 million (2007: nil) to secure for an amount of RMB13.4 million (2007: nil) of a bank loan of RMB19.5 million (2007: nil) granted to a third party who then lent a loan of RMB15.5 million to the Group.

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

	2008	2007
	HK$'000	HK$'000
Hong Kong	**220**	230
The PRC	**200,038**	192,743
	200,258	192,973

17. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	2008 HK$'000	2007 HK$'000
The prepaid lease payments on land use rights comprise:		
Leasehold land in the PRC:		
Medium-term lease	**16,949**	16,278
Analysed for reporting purposes as:		
Current	**439**	411
Non-current	**16,510**	15,867
	16,949	16,278

At 31st December, 2008, the Group has pledged its land use rights with carrying amount stated as above (2007: nil) to secure for amount of approximately HK$77,273,000 (2007: nil) of borrowings to the Group.

18. GOODWILL AND IMPAIRMENT TEST ON GOODWILL

	HK$'000
COST	
At 1st January, 2007, 31st December, 2007 and **31st December, 2008**	83,618
IMPAIRMENT	
At 1st January, 2007, 31st December, 2007 and **31st December, 2008**	14,139
CARRYING VALUE	
At 31st December, 2007 and **31st December, 2008**	**69,479**

18. GOODWILL AND IMPAIRMENT TEST ON GOODWILL *(Continued)*

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

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

The recoverable amounts of the Unit are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rate, growth rates and expected changes to selling prices and direct costs during the forecasted period. Management estimates discount rate of 12.94% (2007: 12.55%), using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Unit. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

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

During the year ended 31st December, 2008, management of the Group determines that there are no impairments of the Unit.

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

19. MINING RIGHT

	HK$'000
COST	
At 1st January, 2007	7,383
Effect on exchange adjustments	471
At 31st December, 2007	**7,854**
Effect on exchange adjustments	**535**
At 31st December, 2008	**8,389**
AMORTISATION	
At 1st January, 2007	241
Effect on exchange adjustments	15
Charge for the year	162
At 31st December, 2007	**418**
Effect on exchange adjustments	**28**
Charge for the year	**173**
At 31st December, 2008	**619**
CARRYING VALUES	
At 31st December, 2008	**7,770**
At 31st December, 2007	7,436

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

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2008	2007
	HK$'000	HK$'000
Cost of unlisted investment in a jointly controlled entity	–	23,458
Share of post-acquisition losses	–	(23,458)
	–	–
Amount due from a jointly controlled entity	–	13,230
Less: Allowance	–	13,230
	–	–

Particulars of the jointly controlled entity at 31st December, 2007, which was established in the PRC, were as follows:

Name of entity	**Form of business structure**	**Registered capital**	**Proportion of registered capital held by the Group**	**Principal activity**
			%	
佛山市亨達陶瓷有限公司 Foshan Hunter Ceramic Co., Ltd.	Incorporated	US$5,012,500	60	Inactive

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

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

Foshan Hunter Ceramic Co., Ltd was deregistered and the interest in a jointly controlled entity was written off in 2008.

21. INTEREST IN AN ASSOCIATE

	2008	2007
	HK$'000	HK$'000
Cost of unlisted investment in an associate	–	24,911
Share of post-acquisition losses	–	(24,911)
	–	–
Amount due from an associate	–	41,479
Less: Allowance	–	41,479
	–	–

Particulars of the Group's associate at 31st December, 2007, which was established in the PRC, were as follows:

Name of entity	**Form of business structure**	**Registered capital**	**Proportion of registered capital held by the Group**	**Principal activity**
			%	
佛山市三聯陶瓷有限公司 Foshan Three Union Ceramic Co., Ltd.	Incorporated	US$6,652,800	48	Inactive

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

Foshan Three Union Ceramic Co., Ltd was deregistered and the interest in an associate was written off in 2008.

22. REFUNDABLE DEPOSIT AND LOAN RECEIVABLE

Included in the amount are refundable deposit of HK$150,000,000 (2007: HK$150,000,000) paid to Sunnysino (B.V.I.) Limited ("Sunnysino", formerly known as Sunnysino Limited) for the acquisition of Redstone Gold Limited ("Redstone"), loan receivable of HK$50,000,000 (2007: HK$50,000,000) and interest receivable of approximately HK$41,219,000 (2007: HK$2,556,000) due from Redstone with details as set out in note 34. The payments of the refundable deposit and the loan receivable were financed by borrowings of the Group.

Redstone is an investment holding company. 雲南斗月礦業有限公司 (Yunnan Crescent Mining Company Limited) ("Yunnan Crescent") is a non-wholly owned subsidiary of Redstone. The principal activity of Yunnan Crescent is gold mining in the PRC. Yunnan Crescent has two gold mines with mining licences in Yunan Province of the PRC.

The loan bears interest at 15% (2007: prime rate plus 5%) per annum accrued from the date of the actual receipt of the loan up to and including the date of actual repayment of the loan. The loan will be repaid on or before 20th January, 2009 or such other date as may be determined solely and directed by the Company in writing. On 20th January, 2009, Redstone has repaid approximately HK$24,000,000 of the loan principal together with approximately HK$11,000,000 of accrued interest and verbally agreed with the Company to repay the remaining loan principal on or before 30th April, 2009. The deposit bears interest at 15% per annum accrued from the date of actual receipt of the refundable deposit up to and including the date of actual refund of the refundable deposit. The deposit will be refunded on or before 30th April, 2009 or such other date as may be determined solely and directed by the Company in writing. The deposit and the loan receivable are secured by share mortgages over 90% of the issued share capital of Redstone and personal guarantee given by the beneficial owner of such 90% issued share capital of Redstone.

On 19th January, 2009, the Company and its subsidiary have entered into separate agreement with Redstone and Yunnan Crescent for share mortgages. The additional share mortgages are 85% of the equity interests of Yunnan Crescent.

On 3rd April, 2009, a subsidiary of the Company has entered into an agreement with the shareholder of Sunnysino for additional share mortgages over his 66.6% and 69% equity interests in two PRC companies respectively. These two PRC companies owned 60% interest in a property project in Shanghai and 60% interest in a gold mine with mining license in Guangxi Province of the PRC respectively.

Up to 22nd April, 2009, the registration of the share mortgages with the relevant PRC authorities has not been completed and is still under process.

23. PROPERTIES HELD FOR SALE

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

24. INVENTORIES

	2008	2007
	HK$'000	HK$'000
Inventories consist of the following:		
Raw materials	**35,852**	29,177
Work in progress	**6,147**	4,354
Finished goods	**6,555**	5,942
	48,554	39,473

25. TRADE AND OTHER RECEIVABLES AND DEPOSITS

	2008	2007
	HK$'000	HK$'000
Trade receivables	**252,795**	283,591
Less: Allowance for bad and doubtful debts for trade receivables	**36,426**	38,189
	216,369	245,402
Other receivables and deposits	**29,795**	25,185
Less: Allowance for bad and doubtful debts for other receivables and deposits	**17,924**	16,616
	11,871	8,569
Total trade and other receivables and deposits	**228,240**	253,971

25. TRADE AND OTHER RECEIVABLES AND DEPOSITS *(Continued)*

The Group has a policy of allowing its trade customers credit periods normally ranging from 120 days to 1 year. Their aged analysis of trade receivables is as follows:

	2008	2007
	HK$'000	HK$'000
0 – 90 days	**173,285**	187,538
91-180 days	**33,830**	32,575
181 – 365 days	**7,364**	19,935
Over 1 year	**1,890**	5,354
	216,369	245,402

As at 31st December, 2008, discounted bills receivable with full recourse of approximately HK$32,740,000 (2007: HK$50,321,000) was included in trade receivables. The advance obtained from discounted bills receivable has been recorded as unsecured bank loans (note 28).

Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Approximately 99% (2007: 98%) of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately HK$1,890,000 (2007: HK$5,354,000) which are past due at the reporting date for which the Group has not provided for impairment loss. At 31st December, 2007, the Group held the collateral with approximate market value of HK$4 million of motor vehicles over these balances and the remaining balances were gradually settled. The average age of these receivables is 518 days (2007: 502 days).

25. TRADE AND OTHER RECEIVABLES AND DEPOSITS *(Continued)*

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

	2008	2007
	HK$'000	HK$'000
Over 1 year	**1,890**	5,354

Movement in the allowance for bad and doubtful debts

	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**54,805**	48,175
Exchange difference	**3,737**	3,028
Impairment losses recognised on receivables	**410**	5,820
Amounts recovered during the year	**(2,866)**	(2,218)
Disposal of a subsidiary	**(1,736)**	–
Balance at end of the year	**54,350**	54,805

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$410,000 (2007: HK$5,820,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

At 31st December, 2008, the carrying amount of trade receivables, which has been pledged as security for the borrowings, is approximately HK$3,409,000 (2007: nil). The advance obtained from trade receivable has been recorded as secured bank loans (note 28).

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

Bank deposits totalling HK$13,636,000 (2007: HK$26,391,000) were pledged to banks as collateral to secure short-term banking facilities in respect of bills payable to suppliers and are therefore classified as current assets. The pledged short-term bank deposits carry fixed interest rate of 0.81% to 3.42% (2007: 2.25% to 3.42%) per annum. Bank balances and cash comprise cash and bank balances held by the Group with maturity of three months or less and carry interest at market rates which range from 0.01% to 1.98% (2007: 0.01% to 3.5%) per annum.

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

	2008	2007
	HK$'000	HK$'000
USD	**1,966**	29
HK$	**1,119**	5,386

27. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables and deposits received are trade payables of approximately HK$47,943,000 (2007: HK$88,702,000) and their aged analysis is as follows:

	2008	2007
	HK$'000	HK$'000
0 – 90 days	**15,300**	73,699
91 – 180 days	**29,505**	6,569
181 – 365 days	**1,177**	4,354
Over 1 year	**1,961**	4,080
	47,943	88,702

28. BORROWINGS

Included in new bank borrowings is an amount of approximately HK$32,740,000 (2007: HK$50,321,000) which represents the proceeds from discounted bills receivable with full recourse.

	2008	2007
	HK$'000	HK$'000
Bank loans	**208,286**	223,289
Other loans	**317,134**	239,021
	525,420	462,310
Secured	**390,795**	–
Unsecured	**134,625**	462,310
	525,420	462,310

Borrowings are repayable as follows:

	2008	2007
On demand or within one year	**515,079**	242,310
More than one year, but not exceeding two years	**10,341**	220,000
	525,420	462,310
Less: Amount repayable within one year and shown under current liabilities	**515,079**	242,310
Amount due after one year	**10,341**	220,000

At 31st December, 2008, borrowings of approximately HK$390,795,000 (2007: nil) were secured by:

(a) joint guarantee provided by the Company and its subsidiaries;
(b) property, plant and equipment as disclosed in note 16;
(c) land use rights as disclosed in note 17; and
(d) trade receivables as disclosed in note 25.

28. BORROWINGS *(Continued)*

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

	HK$
	HK$'000
2008	
Bank loans	**83,500**
Other loans	**299,521**
	383,021
2007	
Bank loans	98,500
Other loans	239,021
	337,521

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

	2008	2007
	HK$'000	HK$'000
Fixed-rate borrowings:		
Bank loans repayable within one year	**113,422**	124,789
Other loan repayable within one year	**292,500**	10,000
Other loan repayable after one year, but not exceeding two years	**–**	220,000
	405,922	354,789
Variable-rate borrowings:		
Bank loans repayable within one year	**94,864**	98,500
Other loan repayable within one year	**14,293**	9,021
Other loan repayable after two years, but not exceeding five years	**10,341**	–
	119,498	107,521

28. BORROWINGS *(Continued)*

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

	2008	2007
	HK$'000	HK$'000
Hong Kong Interbank Offered Rate plus 1.5%	**71,000**	86,000
Prime rate	**12,500**	12,500
Prime rate plus 3.5%	**7,021**	9,021
1-year lending interest rate multiplied by 160%	**11,363**	–
3-year lending interest rate multiplied by 120%	**17,614**	–
	119,498	107,521

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

	2008	2007
Effective interest rate:		
Fixed-rate borrowings	**4.83% – 22.15%**	4.32% – 30%
Variable-rate borrowings	**3.98% – 8.39%**	5.31% – 11.5%

In respect of a bank loan with a carrying value of HK$71,000,000 as at 31st December, 2008 (2007: HK$86,000,000), the Group breached a term of the bank loan which related to the debt-equity ratio of the Group due to additional borrowings for financing the refundable deposit and loan receivable as set out in note 22. On 5th May, 2008 and 12th November, 2008, the lender has agreed to waive its rights to demand immediate payment of the loan due to the breach of the borrowing term as at 31st December, 2007 and 30th June, 2008 respectively. In respect of the breach as at 31st December, 2008, the directors of the Company have informed the lender and commenced a renegotiation of the terms of the loan with the relevant bank. Up to the date of the issue of the consolidated financial statements, those negotiations had not been concluded. Since the lender has not yet agreed to waive its rights to demand immediate payment as at the balance sheet date, the loan has been classified as a current liability in the consolidated financial statements.

29. SHARE CAPITAL

	Number of ordinary shares	Amount
		HK$'000
Authorised:		
Ordinary shares of HK$0.25 each		
At 1st January, 2007, 31st December, 2007 and		
31st December, 2008	2,000,000,000	500,000
Issued and fully paid:		
Ordinary shares of HK$0.25 each		
At 1st January, 2007, 31st December, 2007 and		
31st December, 2008	729,395,043	182,349

30. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

	Outstanding at 1st January, 2007	Lapsed during 2007	**Outstanding at 1st January, 2008 and 31st December, 2008**
Held by a director	1,500,000	(1,500,000)	–

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

31. DEFERRED TAXATION

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

	Accelerated tax depreciation	Allowance for doubtful debts	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2007	35,459	(4,144)	877	32,192
Exchange differences	2,263	(265)	–	1,998
Effect of change in tax rate	(2,794)	327	(52)	(2,519)
Credit to income for the year	(1,996)	(748)	(181)	(2,925)
At 31st December, 2007	**32,932**	**(4,830)**	**644**	**28,746**
Exchange differences	**2,245**	**(329)**	**–**	**1,916**
(Credit) charge to income for the year	**(2,150)**	**369**	**38**	**(1,743)**
At 31st December, 2008	**33,027**	**(4,790)**	**682**	**28,919**

At 31st December, 2008, the Group has estimated unused tax losses of HK$176,672,000 (2007: HK$164,268,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unused tax loss of HK$11,329,000 (2007: HK$14,019,000) will expire in 2012 and the remaining unused tax losses may be carried forward indefinitely.

32. RETIREMENT BENEFIT SCHEMES

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

32. RETIREMENT BENEFIT SCHEMES *(Continued)*

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

During the year, the Group made total contributions to the retirement benefits schemes of HK$5,312,000 (2007: HK$5,155,000). Included in the total contribution made, HK$104,000 (2007: HK$76,000) is contribution made for Hong Kong employees.

33. OPERATING LEASE COMMITMENTS

In June 2001, the Group entered into an arrangement with a third party in the PRC to lease the production facilities for manufacture of cement with a term of twenty years. Other operating leases and rentals are negotiated for an average term of two to eight years.

	2008	2007
	HK$'000	HK$'000
Minimum lease payments under operating leases recognised as an expense in the year	**1,783**	2,720

At 31st December, 2008, the Group had commitments for future minimum lease payments under the above arrangement and other non-cancellable operating leases for premises and property, plant and equipment which fall due as follows:

	2008	2007
	HK$'000	HK$'000
Not later than one year	**1,648**	1,887
Later than one year and not later than five years	**6,591**	7,187
Later than five years	**12,277**	13,036
	20,516	22,110

34. COMMITMENTS

(a) On 26th July, 2007, the Group entered into an agreement (the "Agreement") (as supplemented by a supplemental agreement on 14th September, 2007) with Sunnysino and Orrita Group Limited ("Orrita") which had conditionally agreed to sell and the Group had conditionally agreed to purchase, the entire issued share capital of Redstone at an aggregate consideration of HK$1,000,000,000. An initial refundable deposit of HK$150,000,000 had been paid as disclosed in note 22. The balance of the aggregate consideration in the sum of HK$850,000,000 will be settled by the Group in the following manner:

(1) Upon completion of the purchase of the shares

- as to HK$530,000,000 payable to Sunnysino by way of allotment and issue of the consideration shares by the Company to Sunnysino at a price of HK$1.00 per consideration share, credited as fully paid up, and by way of cash payment of HK$85,000,000 to Sunnysino;
- as to HK$100,000,000 payable to Orrita in cash; and

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

On 23rd December, 2008, as Sunnysino, Orrita and the Group could not reach an agreement on the re-negotiation and that the condition precedent as prescribed under Clause 3(A)(xvii) of the Agreement has not been fulfilled and will not be expected to be fulfilled by 31st December, 2008. Pursuant to the Clause 3(E) of the Agreement, the Group is not obligated to proceed to completion, and has therefore elected not to proceed to completion by serving the termination notice ("Termination Notice") to Sunnysino, Orrita and the shareholder of Sunnysino on 23rd December, 2008 to terminate the Agreement. A supplemental loan agreement and the deed of undertaking have been entered into on 23rd December, 2008 to arrange for the repayment of the loan and refundable deposit by Sunnysino and Redstone to the Group.

34. COMMITMENTS *(Continued)*

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

On 23rd December, 2008, as the condition precedent as prescribed under Clause 3(A)(xvii) of the Agreement has not been fulfilled and will not be expected to be fulfilled by 31st December, 2008, the sale and purchase of the sale shares under the Agreement has not become unconditional, the Agreement has therefore been terminated pursuant to the Termination Notice. Accordingly, the placing will not proceed, upon which none of the parties to the Placing Agreement will have any claim against the other for costs, damages, compensation or otherwise.

(c) Capital commitment

At the balance sheet date, the Group had the following capital commitments:

	2008	2007
	HK$'000	HK$'000
Capital expenditure commitments in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**6,801**	–

35. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of BSSCML for a consideration of RMB4,700,000. The net assets of BSSCML at the date of disposal were as follows:

	HK$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	12,214
Inventories	604
Trade and other receivables	14,161
Deposits and prepayments	48
Bank balances and cash	201
Trade and other payables and deposits received	(19,657)
Tax liabilities	(331)
	7,240
Minority interest	(1,448)
Translation reserves realised	(709)
	5,083
Gain on disposal	258
Total consideration	5,341
Satisfied by:	
Cash	1,773
Deferred consideration	3,568
	5,341
Net cash inflow arising on disposal:	
Cash consideration	1,773
Bank balances and cash disposed of	(201)
	1,572

35. DISPOSAL OF SUBSIDIARIES *(Continued)*

The deferred consideration will be settled in cash by the purchaser in two instalments on or before 20th June, 2009.

The impact of BSSCML on the Group's results and cash flows in the current period and prior year is disclosed in note 13.

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

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

The above disposed subsidiaries contributed HK$1,000,000 to the Group's investing activities in year 2007.

35. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

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

The above disposed subsidiary contributed HK$758,000 to the Group's investing activities in year 2007.

36. RELATED PARTY TRANSACTIONS

(1) On 16th December, 1995, a leasing agreement was entered into between Shanghai SAC, a subsidiary of the Company, and Shanghai Cement Factory ("SCF"), a minority shareholder, which held a 40% interest in Shanghai SAC. According to the leasing agreement, Shanghai SAC should pay to SCF an annual leasing fee which consisted of (1) a fixed asset leasing fee mainly based on the depreciation of the property, plant and equipment leased under the leasing agreement plus a mark-up of about 10%; and (2) an usage fee mainly based on the volume of raw materials off-load and the applicable unit rate for the relevant raw materials agreed by the parties when the leasing agreement was signed. The underlying assets are also used by SCF. During the year ended 31st December, 2008, Shanghai SAC paid a total leasing fee of HK$6,747,000 (2007: HK$6,631,000) to SCF.

(2) In July 2002, the Company entered into a master agreement (the "Master Agreement") with Tian An China Investments Company Limited ("Tian An"), a former ultimate holding company, for a reciprocal arrangement of guarantee. Accordingly, the Group provides guarantees to secure certain borrowings of subsidiaries of Tian An (the "Tian An Group") in the PRC and Tian An Group provides guarantees to secure certain borrowings of the Group in the PRC. A guarantee fee of 1% per annum on the principal amount of the guarantees is chargeable between the relevant parties. At 31st December, 2008, the Group did not provide guarantees to the Tian An Group and the Tian An Group did not provide guarantees (2007: HK$10,638,000) to secure borrowings of Shanghai SAC in the PRC pursuant to the Master Agreement. Details of the guarantee fee income and expenses are set out in the table below. On 29th June, 2007, Tian An ceased to be the ultimate holding company of the Company. During the year ended 31st December, 2007, two directors of the Company, who were directors of Tian An, resigned on 4th July, 2007.

36. RELATED PARTY TRANSACTIONS *(Continued)*

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

		2008 HK$'000	2007 HK$'000
(i)	**Former fellow subsidiaries** (Note)		
	Proceed on disposal of a subsidiary (note 35)	–	800
	Interest charge	–	501
	Management fee expenses	–	356
	Guarantee fee expenses	–	181
(ii)	**Subsidiaries of a company which has significant beneficial interests in the Company's former ultimate holding company** (Note)		
	Insurance expense	–	74
	Interest charge	–	92
	Rental expenses, air conditioning charges, repairs and maintenance	–	218
(iii)	**A subsidiary of a substantial shareholder with significant influence over the Group**		
	Administrative expenses	**1,506**	777
(iv)	**Company which has significant beneficial interests in the Company's former ultimate holding company** (Note)		
	Management fee expenses	–	495
(v)	**Former ultimate holding company** (Note)		
	Guarantee fee expense	–	478
(vi)	**Key management compensation**		
	Short-term employee benefits	**4,522**	3,447
	Post employment benefits	**228**	121

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

36. RELATED PARTY TRANSACTIONS *(Continued)*

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

The above-mentioned management fee commenced to be charged in 2005 and is calculated by reference to the time devoted by the management personnel on the affairs of the Group and can be apportioned to the above key management personnel. During the year ended 31st December, 2007, the total of such apportioned amounts, which had been included in the key management personnel compensation above, was HK$114,000.

As at 31st December, 2008, the Group has the following significant balances with related parties.

	Notes	**2008** **HK$'000**	2007 HK$'000
Current asset			
Amount due from a minority shareholder	a	–	1,281
Current liabilities			
Dividends payable to a minority shareholder	b	–	738
Amount due to former ultimate holding company	b	**14,820**	12,841
Amount due to a minority shareholder	b	**4,876**	–
Amounts due to a related company	b, d	**2,283**	777
Non-current liability			
Amount due to a minority shareholder	c	**450**	400

36. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

(a) The balance was unsecured, non-interest bearing and was settled during the year.

(b) The balances are unsecured, non-interest bearing and are repayable on demand.

(c) The amount due to a minority shareholder is unsecured, interest-free and is repayable by 2043. The effective interest rate of the amount is 5.58% (2007: 5.58%) per annum.

Details of other balances and transactions with related parties at the balance sheet date are disclosed in the consolidated balance sheet, notes 20 and 21.

(d) The related company is owned by a substantial shareholder of the Company. On 6th March, 2009, the substantial shareholder disposed its shares in the Company to an independent third party.

37. POST BALANCE SHEET EVENTS

(a) On 2nd January, 2009, the Company and Sun Hung Kai Investment Services Limited (the "Placing Agent") entered into a conditional placing agreement pursuant to which the Placing Agent has agreed to place, on a fully underwritten basis, 145,000,000 placing shares (the "Placing Shares") to independent investors at HK$0.27 per Placing Share. Completion of the placing of new shares took place on 19th January, 2009 and the Placing Agent has successfully placed the Placing Shares to independent investors at a placing price of HK$0.27.

(b) On 8th April, 2009, the Company , Shanghai Allied Cement Holdings Limited and SHK Finance Limited entered into a supplemental loan agreement to extend the repayment term of the loan of HK$247,500,000 for a further 12 months from 6th July, 2009 to 7th July, 2010.

38. BALANCE SHEET INFORMATION OF THE COMPANY

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

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Unlisted investments		**102,344**	87,422
Amounts due from subsidiaries less allowances	a	**374,866**	379,452
Loan receivable	b	**–**	52,556
		477,210	519,430
Current assets			
Other receivables and prepayments		**277**	281
Amount due from a subsidiary		**–**	935
Bank balances and cash		**954**	5,266
Loan receivable	b	**60,562**	–
		61,793	6,482
Current liabilities			
Other payables		**11,897**	5,242
Amount due to former ultimate holding company		**184**	59
Amounts due to subsidiaries	c	**31,038**	16,202
Borrowings due within one year	d	**275,000**	12,500
		318,119	34,003
Net current liabilities		**(256,326)**	(27,521)
Total assets less current liabilities		**220,884**	491,909
Capital and reserves			
Share capital		**182,349**	182,349
Reserves	e	**38,535**	89,560
		220,884	271,909
Non-current liability			
Borrowings due after one year		**–**	220,000
		220,884	491,909

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

Particulars of the principal subsidiaries of the Company at 31st December, 2008 and 2007 are set out in note 39.

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

Notes:

(a) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors of the Company, the amounts will not be repaid in the next twelve months from the balance sheet date and the amounts are therefore shown as non-current. The effective interest rate of the amount is 4.35% (2007: 5.88%) per annum.

(b) Loan receivable

The loan receivable of HK$50,000,000 is secured, interest bearing and has terms of repayment set out in note 22. The loan bears interest at 15% (2007: prime rate plus 5%) per annum accrued from the date of the actual receipt of the loan up to and including the date of actual repayment of the loan.

(c) Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(d) Borrowings

The borrowings of HK$262,500,000 (2007: nil) was secured by the joint guarantee provided by the Company and its subsidiary. The remaining amount was unsecured and not guarantee by the Company or its subsidiary.

The variable-rate borrowing of HK$12,500,000 carries interest rate of prime rate, which is repricing annually. The effective interest rate of fixed-rate borrowings of HK$262,500,000 and variable-rate borrowings of HK$12,500,000 are 22.15% (2007: 30%) and 5.85% (2007: 7.82%) respectively.

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

Notes: *(Continued)*

(e) Reserves of the Company

	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Translation reserve HK$'000	Retained profits (accumulated loss) HK$'000	Total HK$'000
At 1st January, 2007	918	65,409	–	36,450	102,777
Loss for the year	–	–	–	(13,217)	(13,217)
At 31st December, 2007	**918**	**65,409**	**–**	**23,233**	**89,560**
Loss for the year	**–**	**–**	**–**	**(68,976)**	**(68,976)**
Exchange difference arising on translation of presentation currency recognised directly in equity	**–**	**–**	**17,951**	**–**	**17,951**
At 31st December, 2008	**918**	**65,409**	**17,951**	**(45,743)**	**38,535**

The contributed surplus of the Company represents the aggregate of:

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

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

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

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

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

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

Notes: *(Continued)*

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

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

	2008 HK$'000	2007 HK$'000
Contributed surplus	**65,409**	65,409
(Accumulated loss) retained profits	**(45,743)**	23,233
	19,666	88,642

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2008 and 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operations	Issued and fully paid share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company 2008 Directly %	2008 Indirectly %	2007 Directly %	2007 Indirectly %	Principal activities
All-cement Limited	The British Virgin Islands	Hong Kong	Ordinary US$1	**–**	**100**	–	100	Investment holding
All-Shanghai Inc.	The British Virgin Islands	Hong Kong	Ordinary US$15,376,500	**–**	**83.3**	–	83.3	Investment holding
SAC Enterprises Limited	Hong Kong	Hong Kong	Ordinary HK$1,000	**100**	**–**	100	–	Provision of management services to group companies
SAC Finance Company Limited	Hong Kong	Hong Kong	Ordinary HK$100	**–**	**100**	–	100	Provision of financing services to group companies
Shandong Shanghai Allied Cement Co., Ltd.	The PRC (Note a)	The PRC	Registered capital US$1,000,000	**–**	**100**	–	100	Manufacture and distribution of cement and clinker

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Place of operations	Issued and fully paid share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company 2008 Directly %	2008 Indirectly %	2007 Directly %	2007 Indirectly %	Principal activities
Shanghai Allied Cement Co., Ltd.	The PRC (Note b)	The PRC	Registered capital US$24,000,000	–	60	–	60	Manufacture and distribution of cement and clinker
Shanghai Allied Cement Holdings Limited	Hong Kong	Hong Kong	Ordinary HK$10,000,000	100	–	100	–	Investment holding
Shandong Allied Wangchao Cement Limited	The PRC (Note a)	The PRC	Registered capital US$9,200,000	–	100	–	95	Manufacturing and distribution of cement and clinker
Sino Able Investment Limited	The British Virgin Islands	Hong Kong	Registered capital US$1	100	–	100	–	Investment holding
深圳市賽華順升建材有限公司("SZ TRIWA")	The PRC (Note c)	The PRC	Registered capital RMB1,500,000	–	–	–	–	Investment holding

Notes:

(a) The subsidiaries are wholly owned enterprise with foreign capital.

(b) The subsidiary is a non-wholly owned Sino-foreign joint venture.

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

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affect the results of the Group for the year or form a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

FINANCIAL SUMMARY

For the year ended 31st December, 2008

RESULTS

	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Turnover	377,844	349,437	386,511	434,300	**552,847**
Profit (loss) before taxation	36,348	(32,120)	14,406	(16,595)	**12,346**
Taxation (charge) credit	(12,750)	(420)	(7,212)	1,400	**(1,857)**
Profit (loss) for the year	23,598	(32,540)	7,194	(15,195)	**10,489**
Profit (loss) attributable to:					
Equity holders of the Company	10,414	(35,233)	387	(21,658)	**2,487**
Minority interests	13,184	2,693	6,807	6,463	**8,002**
	23,598	(32,540)	7,194	(15,195)	**10,489**

ASSETS AND LIABILITIES

	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Total assets	827,030	885,135	868,454	1,133,021	**1,178,748**
Total liabilities	(347,188)	(434,673)	(394,714)	(651,259)	**(672,792)**
Total equity	479,842	450,462	473,740	481,762	**505,956**
Minority interests	(159,703)	(159,822)	(173,093)	(186,677)	**(192,882)**
Equity attributable to equity holders of the Company	320,139	290,640	300,647	295,085	**313,074**

十佳"儒商單位"稱號榮譽證書
Top Ten Confucian Entrepreneur Unit Honor

高新技術企業證書
High Technologies Enterprise Certificate

全國企業文化優秀成果榮譽證書
China Excellence Corporate Culture Member

環球金融中心
Global Financial Hub

中國礦業大學項目
China University of Mining and Technology Project