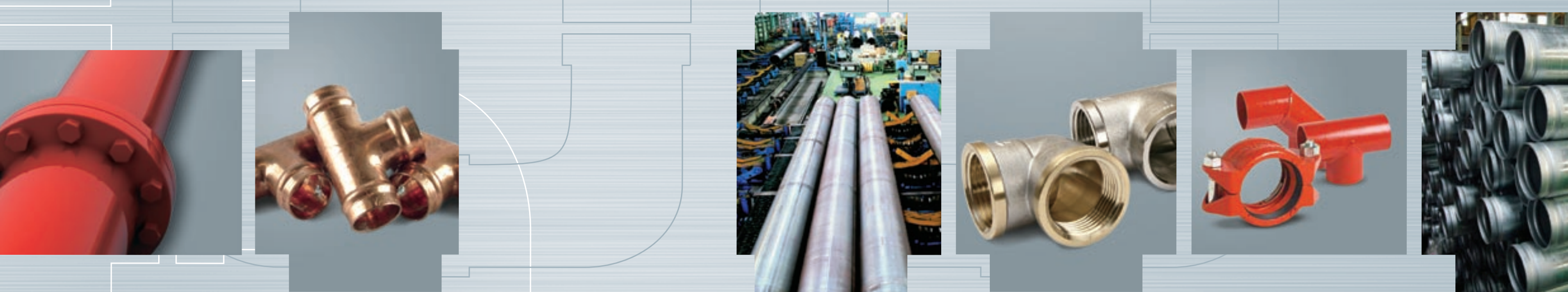
中國管業集團有限公司
CHINA PIPE GROUP LIMITED

(Incorporated in Bermuda with limited liability)
Stock code: 380

Annual Report 2008



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EXECUTIVE DIRECTORS
Mr. Cai Shangwu *(Note a)*
Ms. Wing Man Yi *(Note b)*
Mr. Chan Wing Yuen, Hubert *(Note b)*
Mr. Lam Cheung Shing, Richard *(Note b)*
Mr. Zhu Yongjun *(Note b)*
Mr. Hu Yishi *(Note c)*

NON-EXECUTIVE DIRECTORS
Mr. Lai Guanglin *(Chairman) (Note a)*
Mr. U Kean Seng *(Note a)*
Mr. Zhao Yue *(Note a)*
Mr. Hu Jinxing *(Note c)*
Mr. Zhang Yang *(Note d)*

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Wong Yee Shuen Wilson *(Note a)*
Mr. Sam Ming Choy *(Note a)*
Mr. Lau Kwok Ting *(Note a)*
Mr. Lui Tin Nang *(Note b)*
Mr. Ko Ming Tung, Edward *(Note b)*
Mr. Ho Yiu Yue Louis *(Note b)*

Notes:

a. Appointed on 23rd February 2009
b. Resigned on 23rd February 2009
c. Retired on 6th June 2008
d. Resigned on 26th September 2008

SECRETARY
Mr. Ngai Wai Kin

AUDITOR
PricewaterhouseCoopers
Certified Public Accountants

SOLICITORS
Wong & Fok
Angela Ho & Associates

REGISTRAR IN HONG KONG
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Shanghai Commercial Bank Limited
Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HEAD OFFICE
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Austin Tower
22-26A Austin Avenue
Tsim Sha Tsui
Kowloon, Hong Kong
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PRINCIPAL PLACE OF BUSINESS
Retail shops
G/F., 618 Shanghai Street, Mongkok, Kowloon
Tel: (852) 2395 0181
Fax: (852) 2787 3421

G/F., No. 30 Hop Yick Road, Yuen Long, N.T.
Tel: (852) 2473 3660
Fax: (852) 2442 2766

Shop A, G/F., No. 7-11 Tai Wong Street East,
Wanchai, Hong Kong
Tel: (852) 2866 6001
Fax: (852) 2866 6339

Rua Da Ribeira Do Patane No. 13, R/C
Macau
Tel: (853) 2855 3693
Fax: (853) 2895 1020

Warehouse
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I have pleasure in presenting to the shareholders the annual report of China Pipe Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December 2008.

FINANCIAL RESULTS

The turnover of the Group for the year ended 31st December 2008 was HK$701,766,000 which represents an increase of about 10.75% when compared to that of HK$633,668,000 in last year. In the year, the Group recorded fair value losses on investment properties of HK$31,582,000 due to the decline in property market in Hong Kong and China whilst there were net fair value gains on investment properties of HK$23,202,000 in year 2007. The Group also recorded net fair value losses on financial assets at fair value through profit or loss of HK$29,798,000 for the year as compared to net fair value gains on financial assets at fair value through profit or loss of HK$4,288,000 in year 2007.

For the year ended 31st December 2008, the Group recorded a gross profit of HK$166,910,000 and a gross profit margin of 23.78%, compared to a gross profit of HK$155,762,000 and a gross profit margin of 24.58% in last year.

Selling and distribution costs for the year amounted to HK$18,968,000 and remained steady as compared to last year (2007: HK$18,968,000).

The Group recorded a net loss of approximately HK$42,596,000 in the year compared to a net profit of HK$67,104,000 in the last year, The basic loss per share for the year was HK0.34 cents as compared to a basic earnings per share of HK0.55 cents for the year 2007.

DIVIDENDS

The Directors do not recommend a final dividend for the year (2007: a final dividend of HK0.08 cents per ordinary share).

BUSINESS REVIEW

The year of 2008 was indeed proven to be a challenging year for the Group. The Group has been able to achieve growth despite the unprecedented volatility of the metal prices throughout the year. During the first three quarters of 2008, due to the weaknesses of US Dollars and huge demand from developing countries such as the Middle East, India and China, majority of the metal price, namely copper, steel and scrap iron has reached a historic price peak – it has appreciated over 80% compared with the prior year.

In the last quarter of 2008, due to the global financial tsunami, the US Dollars has strengthened and metal prices have dropped substantially. This has created a very confused market environment and the Group has adopted a more conservative purchase plan until the metal supply market is stabilised.

FUTURE PLAN

The Group will focus on its core business of supplying pipes and related products to the market. The Group will continue to secure sourcing of quality products with global prestigious suppliers.

The Group will seek opportunity to expand our presence in the China market. In addition to our existing processing facilities in Panyu and sales office in Shanghai, the Group intends to set up a global sourcing centre in Shenzhen to monitor the orders placed to suppliers.

As the investment properties held by the Group has occupied working capital of the Group, in light of the tough market environment, if necessary, the management may consider to dispose of some of the investment properties in order to secure sufficient working capital for the Group to operate.

APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere gratitude to all our customers, shareholders and suppliers for their trust and support given to us all these years.

I would also like to extend my appreciation to all our employees for their continued hard work and dedication to the development of the Group. Each and every one of them has played an important role to the day to day operation of China Pipe.

Finally, I would like to take this opportunity to express my sincere thanks for the close cooperation of my fellow Board members and the senior management of the Group. Their contribution, dedication and devotion has marked the Group's evolution throughout these years.

By Order of the Board
LAI Guanglin
Chairman

Hong Kong, 24th April 2009

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy financial position, with cash and bank balances of HK$19,476,000 as at 31st December 2008 (2007: HK$33,272,000). The Group's working capital requirement has been financed by its internal resources. The Group believes that funds generated from internal operations, its existing reserve and the available banking facilities will enable the Group to meet its future cash requirements.

The Group had aggregate banking facilities of approximately HK$327,269,000 as at 31st December 2008 (2007: HK$384,191,000) for overdrafts, term loans and other trade finance facilities, approximately HK$302,997,000 (2007: HK$320,067,000) of which were utilised as at 31st December 2008. The banking facilities are secured by corporate guarantees of the Company, investment properties held by subsidiaries with carrying values of HK$295,498,000 and bank deposit of HK$20,000,000.

The Group's borrowings are denominated in Hong Kong dollars and Renminbi. Banking facilities were granted to the Group which bear interest at prevailing market rates.

The Group conducts its business transactions mainly in Hong Kong dollars, Renminbi, United States dollars, Euro dollars and Australian dollars. In order to mitigate the foreign exchange risk, the Group has been closely monitoring its foreign currency exposure and requirements and will arrange for any hedging facilities if necessary.

As at 31st December 2008, the gearing ratio (total debts/total equity of the Group) was 0.80 (2007: 0.61).

BANKING FACILITIES WITH ASSETS PLEDGED

Investment properties with carrying values of HK$295,498,000 (2007: HK$42,600,000) and bank deposit of HK$20,000,000 (2007: Nil) at the year end held by subsidiaries of the Group are pledged to banks to obtain banking facilities.

STAFF AND EMPLOYMENT

Including the Directors of the Group, as at 31st December 2008, the Group employed a total of 193 (2007: 234) full-time employees. Total employee benefit expenses was approximately HK$60,071,000 (2007: HK$52,940,000).

Remuneration is reviewed annually and certain staff members are entitled to commission. In addition to the basic salaries and contributions to the mandatory provident fund, the Group also pays discretionary bonus and provides staff benefits including medical scheme.

The Group is committed to maintain a high standard of corporate governance and enhance its transparency so as to protect the shareholders' interest in general. The Group will continue to raise the standard to formalise the best practise of corporate governance as far as we could.

The Company had adopted the code provisions set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own corporate governance practices except with the deviations from Code Provision A.2.1 in respect of separate role of Chairman and Chief Executive Officer.

BOARD OF DIRECTORS

As at the date of this report, the Board is now made up of seven Directors including one Executive Director, three Non-executive Directors and three Independent Non-executive Directors. Biographical details of the Directors are set out on page 13 to page 17 of this Annual Report.

The Board has a balance of skills and experience appropriate for the requirements of the business. The Board membership is covered by professionally qualified and widely experienced personnel so as to bring in valuable contributions and different professional advices and consultancy for the development of the Company. All Directors have separate and independent access to the advice and services of the senior management and the company secretary with a view to ensuring the board procedures, and all applicable rules and regulations are followed. The principal functions of the Board are to supervise the management of the business and affairs; to approve the strategic plans, investment and funding decision; to review the Group's financial performance and operative initiatives.

Each of its Independent Non-executive Directors has made an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and the Company considers all the Independent Non-executive Directors to be independent.

The Board meets regularly and additional meetings are convened when deemed necessary by the Board. Board members are provided with complete, adequate and timely information to allow the Directors to fulfill their duties properly.

During the year, the roles of the Chairman and Chief Executive Officer had not been separated and were performed by the same individual, Ms. Wing Man Yi until her resignation on 23rd February 2009. The Board met regularly to consider major matters affecting the operations of the Company.

Since the appointment of Mr. Lai Guanglin as the Chairman and Non-executive Director of the Company and Mr. Cai Shangwu as Executive Director of the Company with effect from 23rd February 2009, the Company has taken step to comply with Code Provision A.2.1 of the Corporate Governance Code. At present, Mr. Lai Guanglin has taken up the role of providing leadership for the Board and ensures that the Board works effectively and discharge its responsibility properly. Mr. Lai also ensures that good corporate governance practice is in force from time to time, and all key issues are discussed by the Board in a timely manner.

The Executive Director of the Company, Mr. Cai Shangwu, acts as the role of the Chief Executive Officer of the Company, is responsible for managing the day-to-day business of the Company.

All Independent Non-executive Directors of the Company have been appointed for a specific term of one year, subject to re-election. According to bye-laws of the Company, all Directors of the Company are subject to retirement by rotation including the Chairman and Chief Executive Officer.

Directors' attendance at the Board Meeting, Audit Committee Meeting, Remuneration Committee Meeting and Nomination Committee Meeting for the year ended 31st December 2008 is tabulated as follows:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
Ms. Wing Man Yi	4/17	N/A	N/A	N/A
Mr. Chan Wing Yuen, Hubert	16/17	2/2	1/1	N/A
Mr. Lam Cheung Shing, Richard	14/17	2/2	N/A	1/1
Mr. Hu Yishi *(note a)*	1/4	N/A	N/A	N/A
Mr. Zhu Yongjun	4/17	N/A	N/A	N/A
Mr. Zhang Yang *(note b)*	2/6	N/A	N/A	N/A
Mr. Hu Jinxing *(note a)*	1/4	N/A	N/A	N/A
Mr. Lui Tin Nang	8/17	2/2	1/1	N/A
Mr. Ko Ming Tung, Edward	8/17	2/2	1/1	1/1
Mr. Ho Yiu Yue, Louis	8/17	2/2	0/1	1/1

Notes:

a. Retired on 6th June 2008

b. Resigned on 26th September 2008

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rule (the "Model Code") as the code of conduct regarding directors' securities transactions.

Having made specific enquiry of all Directors, the Company is satisfied that all Directors have complied with the required standard set out in the Model Code throughout the year under review.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee consists of three Independent Non-executive Directors, namely Mr. Wong Yee Shuen Wilson, Mr. Sam Ming Choy and Mr Lau Kwok Ting who have been appointed with effect from 23rd February 2009. Previously, Mr. Lui Tin Nang, Mr. Ko Ming Tung, Edward and Mr. Ho Yiu Yue, Louis were member of the Audit Committee whilst Mr. Lui Tin Nang was the Chairman of the Audit Committee before their resignation on 23rd February 2009. The major duties of the Audit Committee are to assist the Board in fulfilling its oversight responsibilities as to the Company's financial statements, reporting, internal control, and audit findings. Mr. Wong Yee Shuen Wilson, being now the Chairman of the Audit Committee, applies his professional qualifications in accounting and financial management expertise in directing the Committee. The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide For Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code.

The Audit Committee holds regular meetings at least twice a year in connection with the release of the annual and interim results of the Group and at such other times as the Audit Committee may determine.

During the year ended 31st December 2008, the Audit Committee had held meetings to review the annual and interim results.

REMUNERATION COMMITTEE

The Remuneration Committee has been established by the Company in accordance with the requirement of the Corporate Governance Code. The Remuneration Committee currently comprises four members, i.e. the three Independent Non-executive Directors, Mr. Wong Yee Shuen Wilson, Mr. Sam Ming Choy and Mr. Lau Kwok Ting and one Non-executive Director, Mr. U Kean Seng, all of them were appointed on 23rd February 2009. Previously, during the financial year ended 31st December 2008, the members of the Remuneration Committee were Mr. Ko Ming Tung, Edward, Mr. Ho Yiu Yue, Louis, Mr. Lui Tin Nang, and Mr. Chan Wing Yuen, Hubert until their resignation on 23rd February 2009.

The Remuneration Committee is responsible for reviewing and recommending the remuneration of the Executive Directors and senior management. The remuneration of the Independent Non-executive Directors are determined by the Board.

NOMINATION COMMITTEE

The Nomination Committee currently comprises four members, i.e. the three Independent Non-executive Directors, Mr. Wong Yee Shuen Wilson, Mr. Sam Ming Choy and Mr. Lau Kwok Ting and the Chairman of the Company, Mr. Lai Guanglin, all of them were appointed on 23rd February 2009. Previously, during the financial year ended 31st December 2008, the members of the Nomination Committee were Mr. Ho Yiu Yue, Louis, Mr. Ko Ming Tung, Edward and Mr. Lam Cheung Shing, Richard until their resignation on 23rd February 2009.

The primary duty of the Nomination Committee is making recommendations to the Board on appointment and removal of directors and management of Board succession.

The Nomination Committee has considered the past performance, qualification, general market conditions and the Company's bye-laws in selecting and recommending directors for retirement rotation.

INTERNAL CONTROL

Management has implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purpose and investment and business risks affecting the Group are identified and managed.

For the year ended 31st December 2008, the Board has conducted a review of the system of internal control of the Group to ensure the effectiveness of the system.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The Auditor's remuneration (excluding out of pocket and miscellaneous expenses) for audit services is HK$1,095,000 and HK$180,000 for non-audit services for year 2008.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The senior management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company.

COMMUNICATIONS WITH SHAREHOLDERS

The Board is obliged to provide regular, effective and fair communication with shareholders. Information is conveyed to the shareholders on a timely basis. The Company's Annual Report is sent to all shareholders and/or its nominees and accessible on the Company's website.

Shareholders' views on matters that affect the Company are welcomed by the Board at shareholders' meetings. Shareholders are notified of shareholders' meetings through notices and reports or circulars sent to them. Each item of special business in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. The chairman of the Audit and Remuneration Committee are normally available at the meeting to answer those questions in regard to the work of these committees.

The Directors submit their report together with the audited financial statements for the year ended 31st December 2008.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 18 to the financial statements.

An analysis of the Group's revenue and contribution to operating profit for the year is set out in Notes 5, 6 and 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 24.

During the year, the Directors declared an interim dividend HK0.02 cents (2007: HK0.04 cents) per ordinary share, totalling HK$2,507,000 (2007: HK$4,837,000), which was paid on 7th November 2008.

The Directors do not recommend the payment of final dividend for the year. For year ended 31 December 2007, a final dividend of HK0.08 cents per ordinary share, totalling HK$10,026,000 was paid on 13th June 2008.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st December 2008, reserves of the Company available for distribution, including the contribution surplus, amounted to HK$57,865,000 (2007: HK$106,931,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 16 to the financial statements.

INVESTMENT PROPERTIES

Details of the properties held for investment purposes are set out in Note 17 to the financial statements.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 28 to the financial statements.

FIVE YEAR 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 below:

	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	2008 HK$'000
RESULTS					
Revenue	445,260	522,921	617,556	633,668	701,766
Profit/(loss) before income tax	60,236	51,113	71,616	84,583	(36,868)
Income tax expense	(9,961)	(8,589)	(12,314)	(17,479)	(5,728)
Profit/(loss) for the year	50,275	42,524	59,302	67,104	(42,596)
Attributable to:					
Equity holders of the Company	50,430	42,524	59,302	67,104	(42,596)
Minority interests	(155)	–	–	–	–
	50,275	42,524	59,302	67,104	(42,596)
ASSETS AND LIABILITIES					
Total assets	398,665	425,261	523,353	817,492	820,834
Total liabilities	(136,441)	(132,606)	(183,489)	(369,883)	(416,210)
Total equity	262,224	292,655	339,864	447,609	404,624

The results, assets and liabilities of the Group for the five years ended 31st December 2008 have been prepared on the basis set out in Note 2 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

During the year ended 31st December 2008, neither the Company nor its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Cai Shangwu *(Note a)*
Ms. Wing Man Yi *(Note b)*
Mr. Chan Wing Yuen, Hubert *(Note b)*
Mr. Lam Cheung Shing, Richard *(Note b)*
Mr. Zhu Yongjun *(Note b)*
Mr. Hu Yishi *(Note c)*

NON-EXECUTIVE DIRECTORS

Mr. Lai Guanglin *(Chairman) (Note a)*
Mr. U Kean Seng *(Note a)*
Mr. Zhao Yue *(Note a)*
Mr. Hu Jinxing *(Note c)*
Mr. Zhang Yang *(Note d)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Yee Shuen Wilson *(Note a)*
Mr. Sam Ming Choy *(Note a)*
Mr. Lau Kwok Ting *(Note a)*
Mr. Lui Tin Nang *(Note b)*
Mr. Ko Ming Tung, Edward *(Note b)*
Mr. Ho Yiu Yue Louis *(Note b)*

Notes:

a. Appointed on 23rd February 2009
b. Resigned on 23rd February 2009
c. Retired on 6th June 2008
d. Resigned on 26th September 2008

In accordance with the bye-law 102(B) of the Bye-Laws, Mr. Cai Shangwu, Mr. Lai Guanglin, Mr. U Kean Seng, Mr. Zhao Yue, Mr. Wong Yee Shuen Wilson, Mr. Sam Ming Choy and Mr. Lau Kwok Ting shall retire at the forthcoming annual general meeting. The retiring Directors being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors offering themselves for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries, which is not determinable within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out below:

Existing Directors

Mr. LAI Guanglin, aged 45, was appointed as a Non-exective Director and the Chairman of the Company on 23rd February 2009. Mr. Lai has extensive experience in business development and venture investment management. From 2000 to 2002, Mr. Lai was the managing director of Shenzhen Keding Venture Capital Management Co., Ltd., a venture investment management company. In 2002, Mr. Lai founded Ace Choice Management Limited, a company that specialises in promoting business and investment activities between the PRC and other countries. Mr. Lai is currently the chairman of the board of directors of Agria Corporation, a company listed on the New York Stock Exchange. His wholly owned investment vehicle, Brothers Capital Limited, is the largest shareholder of Agria Corporation. Mr. Lai is also an independent non-executive director of KXD Digital Entertainment Ltd., a company listed on the Singapore Stock Exchange. Mr. Lai holds a bachelor's degree in accounting from Monash University, Australia. He is a certified public accountant in Australia.

Mr. CAI Shangwu, aged 40, was appointed as an Executive Director of the Company on 23rd February 2009. Mr. Cai has approximately 18 years' experience in engineering, sales and marketing, and business development in greater China region. Mr. Cai had worked in Zhuhai Jiuzhou Port responsible for technical and engineering work from July 1990 to October 1994. Mr. Cai had also worked as the service manager for Sisu Terminal Systems Pte Ltd from October 1995 to March 1998. Mr. Cai was the regional manager of Renold Transmission Singapore from April 1998 to July 2001, and the chief representative officer of Renold Transmission Singapore stationed in Beijing from July 2001 to April 2004. Mr. Cai was the deputy general manager who set up and operated the Renold Transmission Shanghai Co., Ltd. from April 2004 to August 2005, and became the general manager of the company to oversee its business from August 2005 to November 2008. Mr. Cai holds a bachelor of engineering degree from South China University of Technology (華南理工大學) and a master of science degree from National University of Singapore (新加坡國立大學).

Mr. U Kean Seng, aged 42, was appointed as a Non-executive Director on 23rd February 2009. Mr. U has more than 14 years of experience in the legal practice. Mr. U specialises in the area of corporate law and corporate finance. Mr. U was admitted to the Supreme Court of Victoria, Australia in 1991, to the Singapore Bar in 1993 and to the Roll of Solicitors for England and Wales in 2009. Mr. U holds a bachelor's degree in economics and a bachelor's degree in laws (Honours) from Monash University, Australia. Mr. U currently holds the professional appointment as the Head of Corporate and Legal Affairs of Agria Corporation, a company listed on the New York Stock Exchange. Mr. U is a non-executive director of Radiance Electronics Limited and an independent director of GRP Limited, Miyoshi Precision Limited and Ossia International Limited, all of which are companies listed on the Singapore Stock Exchange. Mr. U served as independent director of CPH Ltd (formerly known as Circuits Plus Holdings Limited), a company listed on the Singapore Stock Exchange, from December 2003 to July 2006, NTI International Limited, a company listed on the Singapore Stock Exchange, from November 2004 to April 2007, New Wave Holdings Ltd (formerly known as New Wave Technologies Ltd), a company listed on the Singapore Stock Exchange, from December 2003 to July 2006 and Automated Touchstone Machines Limited, a company formerly listed on the Singapore Stock Exchange, from July 2005 to April 2007.

Mr. ZHAO Yue, aged 44, was appointed as a Non-executive Director on 23rd February 2009. Mr. Zhao has more than 20 years of management experience. Mr. Zhao has served as the deputy general manager of Agria Brothers Biotech (Shenzhen) Co., Ltd. since August 2008 and as the chief operation officer of Agria Corporation, a company listed on the New York Stock Exchange, since December 2008. Mr. Zhao was a managing director of Yetop International Investment Co., Ltd. in Hong Kong from July 2007 to August 2008. Prior to that, Mr. Zhao served as the executive director and president of Lianhong Investment Co. Ltd from October 2003 to July 2007; the vice president of Bossen International Ltd from October 2001 to September 2003; the executive vice president of Bocom Group from October 2001 to September 2003; the vice president and chief operation officer of Compass Pacific Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited, from September 2000 to September 2001; and the managing director of Yatton Group, a subsidiary of Esquel Enterprises Ltd. from August 1995 to August 2000. Mr. Zhao holds a bachelor of engineering degree in management information systems and a master of engineering degree in industrial business administration from Tsinghua University as well as a master degree in economics from the State University of New York.

Mr. WONG Yee Shuen Wilson, aged 42, was appointed as an Independent Non-executive Director on 23rd February 2009. Mr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and member of Australia CPA and Australasian Institute of Banking and Finance. He holds a master of commerce degree, specializing in Banking and Finance from the University of New South Wales. With more than 19 years of experience in PricewaterhouseCoopers and Ernst and Young, Mr. Wong specializes in the area of auditing banks and listed companies. Mr. Wong is an executive director of Advance Step International Limited and an independent director of Contel Corporation Limited, a company listed on the Singapore Stock Exchange. Mr. Wong was also an independent director of Memory Devices Limited, a company listed on the Singapore Stock Exchange from November 2005 to September 2008.

Mr. SAM Ming Choy, aged 44, was appointed as an Independent Non-executive Director on 23rd February 2009. Mr. Choy has approximately 15 years of experience in managing investment enterprises. He was admitted to the Australian Government and served as Senior Commercial Representative in 1995, and has held the posts of Executive Director of Australian New Resource Investment Group since 2001; the Executive Director of American Chinese Culture Foundation (中美文化基金會) and American Chinese Culture Relics Society (中美文物協會) since 2006 respectively. Mr. Choy holds a Doctor of Business Administration issued by Tsinghua University and Southern California University jointly.

Mr. LAU Kwok Ting, aged 41, was appointed as an Independent Non-executive Director on 23rd February 2009. Mr. Lau has approximately 19 years of experience in investment, corporate finance and business operation in Asia. Mr. Lau is currently a vice president at Ivory Capital Private Limited, an investment banking corporation in Hong Kong. Prior to that, Mr. Lau had worked for different private companies and listed groups including Seven Network Asia Limited, Asia Logistics Technologies Limited, KPMG Corporate Finance Limited, New World CyberBase Limited and Cathay International Limited responsible for investment and corporate finance functions. Mr. Lau started his career in marketing and services at multinational companies in industrial and consumer products. Mr. Lau graduated with a bachelor of science degree in civil and structural engineering and a master degree in business administration from the University of Hong Kong. He holds a bachelor of laws degree from the University of London. Mr. Lau is also a Chartered Financial Analyst® charter holder at CFA Institute in the US.

Past Directors

Ms. WING Man Yi, aged 40, was an Executive Director and Chairman of the Company since June 2007 until her resignation on 23rd February 2009. Ms. Wing was a sales director of Interchina Securities Limited. She has extensive experience in the securities industry in Hong Kong and the PRC, especially in the B share market where she was one of the pioneering professionals in the PRC. Through her experience in the securities industry, she has established a strong network of contacts of corporate and high networth individuals in the PRC and Hong Kong which serves as a source of business and investment opportunities. Prior to joining Interchina Securities Limited, Ms. Wing held various senior positions at Shenyin Wanguo Securities (H.K.) Limited, ABN AMRO Asia Limited and BNP Paribas Peregrine Securities Limited. Ms. Wing received her bachelor's degree in economics from The Central Institute of Finance and Banking（中央財政金融學院）(now known as Central University of Finance & Economics （中央財 經大學）), the PRC. Ms. Wing is the wife of the brother-in-law of Mr. Zhang Yang.

Mr. CHAN Wing Yuen, Hubert, aged 51, was an Executive Director of the Company since June 2007 until his resignation on 23rd February 2009. Mr. Chan was also appointed as a director of Interchina Holdings Company Limited ("Interchina"), the shares of which are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), since 2002. Mr. Chan received a higher diploma from the Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in 1982. Mr. Chan is an associate of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. He is also a member of the Hong Kong Securities Institute and the Hong Kong Institute of Directors. Prior to joining Interchina, Mr. Chan spent over ten years with the Stock Exchange where he last served as a director of the Listing Division in charge of the China Listing Affairs Department. He also spent two and a half years since August 1997 as a director and deputy general manager of Guangdong Investment Limited, the shares of which are listed on the Stock Exchange. Mr. Chan was the company secretary and director of Compliance of Sunevision Holdings Limited, the shares of which are listed on the Stock Exchange, from February 2000 to September 2000. In addition, Mr. Chan was an independent non-executive director of Rising Development Holdings Limited, the shares which is listed on the Stock Exchange, during 1999 to 2007.

Mr. LAM Cheung Shing, Richard, aged 50, was an Executive Director of the Company since June 2007 until his resignation on 23rd February 2009. Mr. Lam holds a master degree in business administration from The Chinese University of Hong Kong. He was appointed as a director of Interchina and Kai Yuan Holdings Limited (formerly known as Guo Xin Group Limited), all of which are companies whose shares are listed on the Stock Exchange, since 2001. Mr. Lam is a fellow member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Mr. Lam spent over ten years with PriceWaterhouseCoopers, an international accounting firm and was promoted to a Senior Audit Manager, and equip with extensive experience in accountancy, taxation and corporate finance. Prior to joining the Company and Interchina, Mr. Lam held senior positions at a number of listed companies in Hong Kong, including Sun Hung Kai & Co., Limited and U-Cyber Technology Holdings Limited. Mr. Lam was also been appointed as an Independent Non-executive Director of Leadership Publishing Group Limited, a listed company on Stock Exchange, during the period from April 2004 to March 2005.

Mr. HU Yishi, aged 33, was an Executive Director of the Company since June 2007 until his retirement on 6th June 2008. Mr. Hu has served as an executive director and the chairman of Kai Yuan Holdings Limited (formerly known as Guo Xin Group Limited) since 17 April 2007. Mr. Hu is responsible for the group's strategic planning including business objectives and directions. Mr. Hu has extensive experience in China affairs and business. He graduated from Shanghai International Tourism Vocational Technology School and is the President of Shanghai Holdeasy Advertising Company Limited and the director and general manager of Shanghai Chuang Yang Advertising & Broadcasting Co., Ltd. Mr. Hu was previously an executive director of Tidetime Sun (Group) Limited (formerly known as Sun Media Group Holdings Limited), company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Hu Yishi is the son of Mr. Hu Jin Xing, another past Non-executive Director of the Company.

Mr. ZHU Yongjun, aged 41, was an Executive Director of the Company since July 2007 until his resignation on 23rd February 2009. Mr. Zhu was responsible for exploring investment opportunities in the market of the PRC. Mr. Zhu obtained his master of business administration in Peking University after graduated from Hunan University in 1989. He is the chief representative of Beijing office of Interchina. He has over 15 years of experience in business planning, management and fund raising.

Mr. ZHANG Yang, aged 45, was an Non-executive Director and Honourable Chairman of the Company since July 2007 until his resignation on 26th September 2008. Mr. Zhang was responsible for the strategic planning and overall management control of the Group. Mr. Zhang was also appointed as an Executive Director and Chairman of Interchina, which is listed on the Stock Exchange, since 2000. Mr. Zhang studied in Industrial Automation Department of Shanghai Second Staff University. He has over twenty years composite investment experience. Mr. Zhang was also been appointed as a Executive Director and Chairman of Kai Yuan Holdings Limited, a listed company in Hong Kong, during the period from December 2001 to April 2007. Ms. Wing Man Yi is the wife of the brother-in-law of Mr. Zhang.

Mr. HU Jinxing, aged 65, was an Non-executive Director of the Company since June 2007 until his retirement on 6th June 2008. Mr. Hu has served as an non-executive director of Kai Yuan Holdings Limited since 04 June 2007. Mr. Hu graduated from Shanghai Normal University with a major in Chinese Language & Literature. He is the president of Shanghai Morelove Foundation and a vice president and general secretary of Shanghai Huajie Affection Foundation. He was a vice principal of Shanghai Hainen Secondary School from February 1994 to July 1997. He spent over 7 years in Shanghai Fu Xing High School as vice principal and later on as principal from October 1997 to February 2005. Mr. Hu was a member of the Tenth Shanghai Committee of the Chinese People's Political Consultative Conference of Hong Kou District, Shanghai, the PRC. Mr. Hu Jin Xing is the father of Mr. Hu Yishi.

Mr. LUI Tin Nang, aged 51, was an Independent Non-executive Director of the Company since July 2007 until his resignation on 23rd February 2009. He has obtained a bachelor of science degree from the University of Leeds and a master degree in business administration from the University of Bradford in United Kingdom. Mr. Lui is a fellow member of the Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong and the Institute of Chartered Accountants in England & Wales, and a member of the Chartered Institute of Management Accountant. He has years of experience in accounting, auditing, taxation and corporate finance. Mr. Lui is an independent non-executive director of Vital Pharmaceutical Holdings Ltd and CT Holdings (International) Ltd, the shares of which are listed on main board of the Stock Exchange and China Bio-Med Regeneration Technology Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange.

Mr. KO Ming Tung, Edward, aged 48, was an Independent Non-executive Director of the Company since July 2007 until his resignation on 23rd February 2009. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. He is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 18 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel, the Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko has been appointed as Tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of the Chiu Chow Association Secondary School. Currently, Mr. Ko is an independent non-executive director of Sinofert Holdings Limited, Wai Chun Group Holdings Limited and Interchina Holdings Company Limited, and a non-executive director of New Smart Energy Group Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr. Ko was an independent non-executive director of Thiz Technology Group Limited whose shares are listed on the GEM Board of the Stock Exchange of Hong Kong Limited.

Mr. HO Yiu Yue Louis, aged 61, was an Independent Non-executive Director of the Company since July 2007 until his resignation on 23rd February 2009. Mr. Ho was the managing director of systems and process assurance at PricewaterhouseCoopers in Shanghai, a position which he retired from in August 2006. Mr. Ho has over thirty years of working experience with international accounting firms of Arthur Andersen, Ernst & Young and PricewaterhouseCoopers as a partner focusing on technology risk, system and process assurance and risk consulting practices. During this period, Mr. Ho provided assurance and advisory services to many blue chip companies in Hong Kong and China. Mr. Ho is a member of the Hong Kong Institute of Certified Public Accountants and the Certified Practising Accountants of Australia. He obtained a bachelor of social science degree from the Chinese University of Hong Kong and a master degree in business administration from the Concordia University in Canada. Mr. Ho is an independent non-executive director of Interchina Holdings Company Limited, the shares of which are listed on main board of the Stock Exchange.

Company Secretary

Mr. NGAI Wai Kin, aged 44, was appointed as the Company Secretary on 16 December 2008. Mr. Ngai holds a Professional Diploma in Accountancy from the Hong Kong Polytechnic, a Bachelor of Laws (Hons) degree from the University of London and a Master of Laws degree from the City University of Hong Kong. Mr. Ngai is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia respectively. Mr. Ngai is also a barrister in England and Wales and a barrister in Hong Kong. Mr. Ngai has over 20 years' experience in the finance and accounting field in both Hong Kong and Australia.

Senior Management

Mr. TSANG Yin, aged 60, joined the Group in 1986 and is the consultant of the pipe trading subsidiary. Mr. Tsang has over 30 years of experience in the trading of pipes, fittings and other related accessories. He is a licensed plumber of the Water Supplies Department. He is responsible for the customers and suppliers' relationship for the pipe trading. Mr. Tsang is the father of Mr. Tsang Kwong Sang, Sunny.

Mr. CHAN Churk Kai, aged 55, joined the Group in 1978 and is the Managing Director of the pipe trading subsidiary. With over 30 years of experience in the trading of pipes, fittings and other related accessories, he is responsible for the development and supervision of the sales department. Mr. Chan is the Welfare Supervisor of the Hong Kong Plumbing & Sanitary Ware Trade Association Limited. He is also an associate member of the Institute of Plumbing and Heating Engineering (U.K.), Asian Institute of Intelligent Buildings and the Hong Kong Association of Energy Engineers. He is also a member of Lions Clubs.

Ms. CHAN Yuk Fan, Fanny, aged 45, joined the Group in 1982 and is the sales director of the pipe trading subsidiary. Ms. Chan is responsible for the Group's sales operations including wholesale division, Hong Kong and Macau retail shops, PRC trade and new product development. She is also responsible for training new staff members of the sales and marketing team of the Group. Ms. Chan has over 26 years of experience in the selling of pipes, fittings and other related accessories.

Mr. LAI Kui Chung, aged 51, joined the Group in 1979 and is the warehouse director of the pipe trading subsidiary. Mr. Lai is responsible for the warehouse and transportation activities of the Group. He has over 29 years of experience in supervising warehouse and transportation operations. Mr. Lai holds a Certificate in Store Supervision from a technical institute.

Miss Chun Yuk Sim, Elsa, aged 42, has been with the Group since 1985. Miss Chan is the director of the Group's subsidiary – Bun Kee Building Material (Shanghai) Co., Ltd. She is responsible for the China market sales, strategies, plans and daily operations management. Miss Chan has over 23 years of experience in sales, management and training, also 6 years of working experience based in China.

Mr. KU Chun Ming, Barry, aged 43, joined the Group in 1993 and is the associate sales director of the pipe trading subsidiary. Mr. Ku has over 21 years of experience in sales and marketing activities. He is responsible for the sales and promotion activities including the exhibitions and seminars.

Miss. LIU Pui Pik, Fanny, aged 38, joined the Group in 1995 and is the associate sales director of the pipe trading subsidiary. She has over 10 years of experience in the selling of pipes, fittings and other related accessories. She is responsible for the sales coordination including handling clients' inquiries, making quotations and daily correspondence. Ms. Liu holds a Bachelor of Arts Degree from the University of Hong Kong.

Mr. Tsang Kwong Sang, Sunny, aged 33, joined the Group in 2006 and is currently the General Sales Manager of the pipe trading subsidiary. Mr. Tsang holds a Bachelor's Degree in Economic from the University of Toronto and has over 10 years' experience in strategic marketing planning in recognized international corporations. He is responsible for the sales and marketing development specialized on Civil Engineering and HVAC Departments. Mr. Tsang is the son of Mr. Tsang Yin.

Ms. LO Wai Yin, Susan, aged 50, joined the Group in 1986 and is a shop general manager of the pipe trading subsidiary. Ms. Lo is responsible for the daily operations of the Group's retail shops. She is also responsible for training new staff members or salesmen of the Group. Ms. Lo has approximately 23 years of experience in the selling of pipes, fittings and other related accessories.

Mr. CHAN Long Ping, Ryan, aged 47, joined the Group in 1997 and is the senior sales manager of the pipe trading subsidiary. Mr. Chan holds a Bachelor's Degree in International Relationship from Hong Kong International Affair College in 2008 and has over 11 years of experience in sales and planning. He is responsible for the sales and marketing development.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31st December 2008, transactions disclosed in Note 32(a) to the financial statements constitute continuing connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

In accordance with Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their factual findings based on the agreed procedures to the Board.

In the opinion of the Independent Non-executive Directors, the continuing connected transactions entered into by the Group during the year ended 31st December 2008 were:

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

(ii) in accordance with the agreements governing the transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

Save as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules during the year ended 31st December 2008.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31st December 2008, none of the Directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 in the Listing Rules.

SHARE OPTIONS

A summary of the share option scheme of the Company are set out in page 81. There is no outstanding share options for the year ended 31st December 2008 (2007: Nil).

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2008, The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed the following persons or corporations (other than a director and chief executive of the Company) as having an interest of 5% or more of the issued share capital of the Company:

Long position in share and underlying share of the Company

Name	Name of company in which interests or short positions were held	Nature of interests	Number of shares	Approximate percentage of shareholding
Singapore Zhongxin Investment Company Limited	The Company	Beneficial owner *(Note 1)*	9,304,180,000 *(L)*	74.24%
Lai Guanglin	The Company	Interest of a controlled corporation *(Note 2)*	9,304,180,000 *(L)*	74.24%
Li Juan	The Company	Interest of spouse *(Note 3)*	9,304,180,000 *(L)*	74.24%
Interchina Holdings Company Limited	The Company	Beneficial owner *(Note 1)*	3,700,000,000 *(L)*	29.52%

(L) *denotes the long position held in the shares*

1. Pursuant the conditional sale and purchase agreement dated 15th October 2008 entered into between Interchina Holdings Company Limited and Singapore Zhongxin Investment Company Limited, Interchina Holdings Company Limited has agreed to sell 3,700,000,000 shares to Singapore Zhongxin Investment Company Limited. As at 31st December 2008, completion of such sale and purchase had not yet taken place. However, Singapore Zhongxin Investment Company Limited is deemed to be interested in such shares pursuant to the SFO.

2. Singapore Zhongxin Investment Company Limited is a company wholly and beneficially owned by Mr. Lai Guanglin and Mr. Lai is deemed to be interested in the 9,304,180,000 shares held and/or interested by Singapore Zhongxin Investment Company Limited. Subsequently after the year end date, Mr. Lai Guanglin was appointed as a non-executive Director and the Chairman of the Company on 23rd February 2009.

3. Ms. Li Juan, the spouse of Mr. Lai Guanglin, is also deemed to be interested in Mr. Lai's interest in the Company under the SFO.

Other than disclosed above, the Company has not been notified of any other interests representing 5% or more of the Company's issued share capital as at 31st December 2008.

As at 31st December 2008, the Company had not been notified of any short positions being held by any substantial shareholders in the shares or underlying shares of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	21.13%
– five largest suppliers combined	60.26%
Sales	
– the largest customer	5.80%
– five largest customers combined	21.15%

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 an interest in the major suppliers or customers noted above.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws, or the Companies Act 1981 of Bermuda (as amended), which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float required under the Listing Rules as at the date of this report.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Lai Guanglin
Chairman

Hong Kong, 24th April 2009

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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TO THE SHAREHOLDERS OF CHINA PIPE GROUP LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Pipe Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 24 to 86, which comprise the consolidated and company balance sheets 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 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 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 Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24th April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
Revenue	*5*	701,766	633,668
Cost of sales	*8*	(534,856)	(477,906)
Gross profit		166,910	155,762
Other income	*6*	–	20
Other (losses)/gains, net	*7*	(58,572)	27,226
Selling and distribution costs	*8*	(18,968)	(18,968)
Administrative expenses	*8*	(112,627)	(75,737)
Operating (loss)/profit		(23,257)	88,303
Finance costs, net	*9*	(13,611)	(3,720)
(Loss)/profit before income tax		(36,868)	84,583
Income tax expense	*10*	(5,728)	(17,479)
(Loss)/profit for the year		(42,596)	67,104
Attributable to:			
Equity holders of the Company	*11*	(42,596)	67,104
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (expressed in cent per share)			
– Basic	*15*	(0.34 cents)	0.55 cents
– Diluted	*15*	(0.34 cents)	0.55 cents
Dividends	*12*	2,507	14,863

The notes on pages 29 to 86 are an integral part of these consolidated financial statements.

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*16*	11,791	12,400
Investment properties	*17*	295,498	243,363
Rental deposits and other assets	*21*	972	3,257
		308,261	259,020
Current assets			
Inventories	*20*	260,337	271,984
Trade and other receivables	*21*	189,374	221,552
Financial assets at fair value through profit or loss	*22*	22,493	22,938
Amount due from a related company	*32*	–	8,586
Tax recoverable		893	140
Pledged bank deposit	*23*	20,000	–
Cash and cash equivalents	*24*	19,476	33,272
		512,573	558,472
Total assets		820,834	817,492
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*28*	25,065	25,065
Reserves	*29*	379,559	412,518
Proposed dividend	*12*	–	10,026
Total equity		404,624	447,609
LIABILITIES			
Non-current liabilities			
Loan from a director	*32*	29,651	–
Borrowings	*26*	134,155	70,000
Deferred income tax liabilities	*27*	1,997	5,780
		165,803	75,780
Current liabilities			
Trade and other payables	*25*	83,223	88,275
Amounts due to related companies	*32*	1,994	–
Taxation payable		5,180	1,449
Borrowings	*26*	160,010	204,379
		250,407	294,103
Total liabilities		416,210	369,883
Total equity and liabilities		820,834	817,492
Net current assets		262,166	264,369
Total assets less current liabilities		570,427	523,389

The notes on pages 29 to 86 are an integral part of these consolidated financial statements.

Lai Guanglin
Director

Cai Shangwu
Director

BALANCE SHEET

As at 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	18	96,901	271,938
Current assets			
Deposits, prepayments and other receivables	21	208	10,225
Amounts due from subsidiaries	18	219,433	30,805
Financial assets at fair value through profit or loss	22	22,493	22,938
Tax recoverable		415	–
Cash and cash equivalents	24	474	1,347
		243,023	65,315
Total assets		339,924	337,253
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	28	25,065	25,065
Reserves	29	137,283	176,323
Proposed dividend	12	–	10,026
Total equity		162,348	211,414
LIABILITIES			
Non-current liabilities			
Loan from a director	32	29,651	–
Amount due to a subsidiary	18	–	70,000
		29,651	70,000
Current liabilities			
Other payables		2,053	2,068
Amounts due to subsidiaries	18	145,872	53,182
Taxable payable		–	589
		147,925	55,839
Total liabilities		177,576	125,839
Total equity and liabilities		339,924	337,253
Net current assets		95,098	9,476
Total assets less current liabilities		191,999	281,414

The notes on pages 29 to 86 are an integral part of these consolidated financial statements.

Lai Guanglin
Director

Cai Shangwu
Director

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Merger reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2007	24,185	29,345	34,115	3,700	–	248,519	339,864
Exchange differences arising on translation of financial statements of subsidiaries	–	–	–	–	4,199	–	4,199
Profit for the year	–	–	–	–	–	67,104	67,104
Total recognised income and expense for 2007	–	–	–	–	4,199	67,104	71,303
Issue of new shares, net of expenses *(Note 28)*	880	50,073	–	–	–	–	50,953
Dividends paid							
2006 final dividend	–	–	–	–	–	(9,674)	(9,674)
2007 interim dividend	–	–	–	–	–	(4,837)	(4,837)
	880	50,073	–	–	–	(14,511)	36,442
At 31st December 2007	25,065	79,418	34,115	3,700	4,199	301,112	447,609
At 1st January 2008	25,065	79,418	34,115	3,700	4,199	301,112	447,609
Exchange differences arising on translation of financial statements of subsidiaries	–	–	–	–	12,144	–	12,144
Loss for the year	–	–	–	–	–	(42,596)	(42,596)
Total recognised income and expense for 2008	–	–	–	–	12,144	(42,596)	(30,452)
Dividends paid							
2007 final dividend	–	–	–	–	–	(10,026)	(10,026)
2008 interim dividend	–	–	–	–	–	(2,507)	(2,507)
	–	–	–	–	–	(12,533)	(12,533)
At 31st December 2008	25,065	79,418	34,115	3,700	16,343	245,983	404,624

The notes on pages 29 to 86 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	*30*	63,216	(23,932)
Interest paid		(13,642)	(5,125)
Interest received		190	1,405
Income tax paid		(6,533)	(15,157)
Net cash generated from/(used in) operating activities		43,231	(42,809)
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,207)	(10,510)
Proceeds from disposal of property, plant and equipment		549	170
Purchase of investment properties		(71,080)	(199,883)
Dividend received from financial assets at fair value through profit or loss		–	20
Net cash used in investing activities		(72,738)	(210,203)
Cash flows from financing activities			
New borrowings		132,822	210,114
Repayment of borrowings		(117,381)	(62,000)
Loan from a director		29,651	–
Dividends paid		(12,533)	(14,511)
Proceeds from issue of new shares, net of expenses		–	50,953
Increase in pledged bank deposit		(20,000)	–
Net cash generated from financing activities		12,559	184,556
Net decrease in cash, cash equivalents and bank overdrafts		(16,948)	(68,456)
Exchange differences on cash, cash equivalents and bank overdrafts		1,001	500
Cash and cash equivalents and bank overdrafts at 1st January		33,263	101,219
Cash and cash equivalents and bank overdrafts at 31st December	*24*	17,316	33,263

The notes on pages 29 to 86 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

China Pipe Group Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in trading of construction materials, mainly pipes and fittings, and property investment.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The Company has its primary listing on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange").

Prior to 16th July 2008, the Company was controlled by Maxable International Enterprises Limited ("Maxable"), a company incorporated in the British Virgin Islands, which directly owned 71.82% of the Company's shares.

On 18th December 2007, Maxable entered into a sale and purchase agreement to dispose of 3,700,000,000 shares of the Company to Interchina Holdings Company Limited ("Interchina"), which is incorporated and listed on the Hong Kong Stock Exchange. The agreement was completed on 16th July 2008 and the equity interest of Maxable in the Company reduced to 42.30%. Interchina then directly owned 29.52% of the Company's shares.

On 15th October 2008, Maxable and Interchina entered into agreements to dispose of all their shares in the Company to an independent third party, Singapore Zhongxin Investment Company Limited ("Singapore Zhongxin"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Lai Guanglin. The agreements were completed on 27th October 2008 and 6th February 2009 respectively and Singapore Zhongxin then owned 74.25% equity interest in the Company and become the ultimate holding company.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved by the Board of Directors on 24th April 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

The Group meets its day to day working capital requirements through facilities obtained from banks. The Group is required to comply with a financial covenant requirement under these banking facilities, which is the maintenance of a minimum level of consolidated net tangible worth. Net tangible worth is defined as the capital and reserves attributable to the Company's equity holders.

The directors consider that with the currently available banking facilities, secured orders from customers and subsequent disposal of financial assets in April 2009, the Group should be able to generate sufficient cash flows to cover its operating costs and should be able to meet its financial obligations as they fall due.

The directors are closely monitoring the financial performance and liquidity position of the Group and have instituted measures to improve its cash flows to prepare for any further deterioration of the global financial crisis which has impacted the Group's operations. These measures could include disposing of certain properties held by the Group and additional cost control measures.

Based on the directors' assessment, taking account of reasonably possible changes in trading performance, the Group expects to be able to meet its financial obligations as and when they fall due in the coming twelve months from the date of these financial statements. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

The following amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2008 but are not currently relevant for the Group:

HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1st July 2008. This amendment does not have any impact on the Group's financial statements as the Group has not reclassified any financial assets.

HK(IFRIC)-Int 11, 'HKFRS 2 – Group and treasury share transactions', effective for annual periods beginning on or after 1st March 2007. It provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation is currently not applicable to the Group as there are no such share-based transactions.

HK(IFRIC)-Int 12, 'Service concession arrangements', effective for annual periods beginning on or after 1st January 2008. It applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. This interpretation is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

HK(IFRIC)-Int 14, 'HKAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction', effective for annual periods beginning on or after 1st January 2008. It provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation is currently not relevant to the Group as none of the Group's companies operate a defined benefit plan.

The following new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group to apply from the accounting periods beginning on or after 1st January 2009 or later periods, but the Group has not early adopted them:

HKAS 1 (Revised), 'Presentation of financial statements', effective from 1st January 2009. The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1st January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

HKAS 23 (Revised), 'Borrowing costs', effective for annual periods beginning on or after 1st January 2009. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1st January 2009 but management believes that this standard should not have a significant impact to the Group.

HKAS 27 (Revised), 'Consolidated and separate financial statements', effective from 1st July 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1st January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation', effective from 1st January 2009. The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1st January 2009, but it is not expected to have any impact on the Group's financial statements.

HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements', effective from 1st January 2009. The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Group will apply HKAS 27 (Amendment) prospectively from 1st January 2009 in its separate financial statements. This amendment is not currently relevant to the Group.

HKFRS 2 (Amendment), 'Share-based payment', effective from 1st January 2009. The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1st January 2009, but it is not expected to have a material impact on the Group's financial statements.

HKFRS 3 (Revised), 'Business combinations', effective from 1st July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1st January 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

HKFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1st January 2009. HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1st January 2009. Management believes that this standard should not have a significant impact to the number of reportable segments, as well as the manner in which the segments are reported as the reportable segment is presented in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

HK(IFRIC)-Int 13, 'Customer loyalty programmes', effective from 1st July 2008. HK(IFRIC)-Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC)-Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

HK(IFRIC)-Int 15, 'Agreements for construction of real estates', effective from 1st January 2009 supercedes HK Int-3, 'Revenue – Pre-completion contracts for the sale of development properties'. HK(IFRIC)-Int 15 clarifies whether HKAS 18, 'Revenue' or HKAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. HK(IFRIC)-Int 15 is not relevant to the Group's operations as all revenue transactions are accounted for under HKAS 18 and not HKAS 11.

HK(IFRIC)-Int 16, 'Hedges of a net investment in a foreign operation', effective from 1 October 2008. HK(IFRIC)-Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC)-Int 16 from 1st January 2009, it is not expected to have a material impact on the Group's financial statements.

HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners', effective from 1st July 2009. This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that: a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; the dividend payable shall be measured at the fair value of the assets to be distributed; and the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss. This interpretation is currently not applicable to the Group as the Group does not distribute any non-cash assets to its owners.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

HK(IFRIC)-Int 18, 'Transfer of assets from customers', effective from 1st July 2009. This interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive transfers from their customers. It also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This interpretation is currently not applicable to the Group as the Group does not transfer any of its assets to its customers.

The following are HKICPA's improvements to HKFRSs published in October 2008:

HKAS 1 (Amendment), 'Presentation of financial statements', effective from 1st January 2009. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1st January 2009, it is not expected to have an impact on the Group's financial statements.

HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows'), effective from 1st January 2009. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to HKAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the Group companies' ordinary activities comprise renting and subsequently selling assets.

HKAS 19 (Amendment), 'Employee benefits', effective from 1st January 2009. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation. The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent. The Group will apply the HKAS 19 (Amendment) from 1st January 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance', effective from 1st January 2009. The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' and the proceeds received with the benefit accounted for in accordance with HKAS 20. The amendment will not have an impact on the Group's operations as there are no loans received or other grants from the government.

HKAS 23 (Amendment), 'Borrowing costs', effective from 1st January 2009. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1st January 2009.

HKAS 27 (Amendment), 'Consolidated and separate financial statements', effective from 1st January 2009. Where an investment in a subsidiary that is accounted for under HKAS 39, Financial instruments: recognition and measurement, is classified as held for sale under HKFRS 5, 'Non-current assets held for sale and discontinued operations', HKAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures'), effective from 1st January 2009. An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendment will not have an impact on the Group's financial statements as the Group has no investments in associates.

HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies', effective from 1st January 2009. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Group's operations as none of the Group's companies operate in hyperinflationary economies.

HKAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to HKAS 32 and HKFRS 7), effective from 1st January 2009. Where an investment in joint venture is accounted for in accordance with HKAS 39, only certain rather than all disclosure requirements in HKAS 31 need to be made in addition to disclosures required by HKAS 32, 'Financial instruments: Presentation' and HKFRS 7 'Financial instruments: Disclosures'. The amendment will not have an impact on the Group's operations as there are no interests held in joint ventures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

HKAS 36 (Amendment), 'Impairment of assets', effective from 1st January 2009. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1st January 2009.

HKAS 38 (Amendment), 'Intangible assets', effective from 1st January 2009. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. These amendments will not have an impact on the Group's operations. The amendment also deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not have an impact on the Group's financial statements as the Group has no intangible assets.

HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement', effective from 1st January 2009. This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker. Currently, for segment reporting purposes, each subsidiary designates and documents (including effectiveness testing) contracts with group treasury as fair value or cash flow hedges so that the hedges are reflected in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision maker.

When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. The Group will apply the HKAS 39 (Amendment) from 1st January 2009. It is not expected to have an impact on the Group's consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16), effective from 1st January 2009. Property that is under construction or development for future use as investment property is within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment will not have an impact on the Group's financial statements as the Group has no property that is under construction or development for future use.

HKAS 41 (Amendment), 'Agriculture', effective from 1st January 2009. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment is currently not relevant to the Group's operations as no agricultural activities are undertaken.

HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption'), effective from 1st July 2009. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1st January 2010.

The Group will apply these new standards, amendments and interpretations to existing standards were applicable. It is not expected to have a significant impact on the Group's financial statements.

There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and therefore they have not been analysed in detail.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment

Property, plant and equipment, comprising leasehold improvements, plant and machinery, equipment, furniture and fixtures and motor vehicles are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using straight-line method to allocate cost at annual rates as follows:

Leasehold improvements	5 years or the lease period, if shorter
Office furniture, fixtures and fittings	5 years
Computer equipment	5 years
Office equipment	3 years
Machinery and equipment	3 years
Motor vehicles	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and recognised in other gains, net in the income statement.

(f) Investment properties

Investment property is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Changes in fair values are recorded in the income statement as part of other gains.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessees or received from the lessor) are recognised as income or expenses in the income statement on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in other gain, net in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in other income in the income statement when the Group's right to receive payments is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial assets at fair value through profit or loss (Continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2(k).

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the original effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When trade and other receivables are uncollectible, they are written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(m) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the net proceeds.

(n) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Employee benefits

(i) Employee leaves

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

Following the adoption of the Mandatory Provident Fund ("MPF") Scheme in December 2000, all employees of the Group employed in Hong Kong joined the MPF Scheme. Under this scheme, employees and the Group are required to make contributions to the scheme calculated at 5% of the individual employee's monthly basic salaries, subject to a cap of HK$1,000. The Group's contributions to this scheme are expensed when they are due. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group's employees in the People's Republic of China (the "PRC") are covered by various government sponsored pension plans. These government agencies are responsible for the pension liabilities to these employees. The relevant group companies pay monthly contributions to these pension plans based on certain percentages of the salaries, subject to a certain ceiling.

Under these plans, the Group has no legal or constructive obligation to make further payments once the required contributions have been paid. Contributions to these plans are expensed as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services, net of value-added tax, rebates, discounts and returns and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Gross rental income from investment properties

Gross rental income from investment properties is recognised on a straight-line basis over the periods of the respective leases.

(iii) Interest income

Interest income is recognised on a time- proportion basis using the effective interest method.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or board of directors.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, cash flow and fair value interest rate risk, credit risk, liquidity risk and price risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group operates principally in Hong Kong and in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars ("USD"). Foreign exchange risk arises from future commercial transactions. In order to mitigate the foreign currency risk, the Group has been closely monitoring its foreign currency exposure and requirements and will arrange for any hedging facilities if necessary.

At 31st December 2008, if USD had strengthened/weakened by 0.25% against HKD with all other variables held constant, pre-tax loss would have been HK$74,000 (2007: HK$92,000 for a strengthened/weakened of 0.30%) higher/lower respectively mainly as a result of foreign exchange losses/gains on translation of USD-denominated trade payables.

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings. All bank borrowings issued at variable rates expose the Group to cash flow interest rate risk. Except for the bank borrowings as at 31st December 2008 of HK$294,165,000 (2007: HK$274,379,000) held at effective interest rates ranging from 2.4% to 6.3% (2007: 4.5% to 10.7%) per annum, the Group has no other significant interest-bearing assets and liabilities.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Based on the simulations performed, if there is a 10 basis-point increase/decrease in interest rate, the post-tax loss would have been HK$462,000 (2007: HK$108,000) higher/lower respectively, with all other variables held constant.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk

The credit risk of the Group mainly arises from cash and cash equivalents and trade and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets. As at 31st December 2007 and 2008, all the bank deposits are deposited in high quality financial institutions without significant credit risk.

The table below shows the bank deposit balances of the five major banks as at 31st December 2007 and 2008. Management does not expect any losses from non-performance by these banks. The Group has no policy to limit the amount of credit exposure to any financial institution.

		As at 31st December	
		2008	2007
Counterparty	Rating (i)	HK$'000	HK$'000
China Construction Bank (Asia) Corporation Limited	A–	20,752	203
DBS Bank (Hong Kong) Limited	AA–	4,959	242
Standard Chartered Bank	A+	234	10,599
Bank of China	A–	7,677	9,207
The Hong Kong and Shanghai Banking Corporation Limited	AA	451	327
		34,073	20,578

Note (i): The source of current credit rating is from Standard and Poor.

The table below shows the major debtor balances as at 31st December 2007 and 2008.

	As at 31st December	
	2008	2007
Counterparty	HK$'000	HK$'000
Top debtor	12,158	17,084
2nd debtor	6,552	16,040
3rd debtor	6,002	12,452
4th debtor	5,949	12,209
5th debtor	4,996	11,095
6th debtor	4,155	7,835
	39,812	76,715

These debtors have no default in the past.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue trade and other receivables. In addition, the Group reviews regularly the recoverable amount of each individual trade and other receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(d) Liquidity risk

The Group meets its day to day working capital requirements through facilities obtained from banks. The Group is required to comply with a financial covenant requirement under these banking facilities, which is the maintenance of a minimum level of consolidated net tangible worth. Net tangible worth is defined as the capital and reserves attributable to the Company's equity holders.

The directors consider that with the currently available banking facilities, secured orders from customers and subsequent disposal of financial assets in April 2009, the Group should be able to generate sufficient cash flows to cover its operating costs and should be able to meet its financial obligations as they fall due.

The ongoing global financial crisis has also resulted in a very high volatility in securities and property markets. The fair values of these assets held by the Group as at the balance sheet date could suffer further fair value losses if there are further declines in securities and property markets. In April 2009, the Group disposed of all its trading securities at HK$28 million. Further fair value losses on investment properties held by the Group would lower the net tangible worth of the Group; and thus the Group's ability to fulfill its financial obligations as they fall due.

The directors are closely monitoring the financial performance and liquidity position of the Group and have instituted measures to improve its cash flows to prepare for any further deterioration of the global financial crisis which has impacted the Group's operations. These measures could include disposing of certain properties held by the Group and additional cost control measures.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000
Group				
At 31st December 2008				
Trade and other payables	83,223	–	–	–
Amounts due to related companies	1,994	–	–	–
Loan from a director	–	29,651	–	–
Borrowings	160,010	15,566	46,832	71,757
Interest payments on borrowings and loan from a director *(Note)*	5,728	9,317	10,148	6,434
At 31st December 2007				
Trade and other payables	88,275	–	–	–
Borrowings	204,379	6,780	20,340	42,880
Interest payments on borrowings *(Note)*	4,348	3,352	8,042	5,999
Company				
At 31st December 2008				
Other payables	2,053	–	–	–
Amounts due to subsidiaries	145,872	–	–	–
Loan from a director	–	29,651	–	–
Interest payments on loan from a director *(Note)*	–	4,744	–	–
At 31st December 2007				
Other payables	2,068	–	–	–
Amounts due to subsidiaries	53,182	6,780	20,340	42,880

Note:

The interest payments on borrowings and loan from a director are calculated based on the amounts of borrowings and loan from a director held as at 31st December 2007 and 2008 without taking into account of future issues. Floating-rate interest is estimated using applicable interest rates at 31st December 2007 and 2008 respectively.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (Continued)

(e) Price risk

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by closely monitoring the security prices.

At 31st December 2008, if the security prices had increased/decreased by 30% to 50%, post-tax loss for the year and equity would have been HK$5,634,000 to HK$9,391,000 (2007: HK$1,915,000 for an increase/decrease of 10%) lower/higher, respectively.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity.

The Group's strategy was to maintain a solid capital base to support the operations and development of its business in the long term. Management considers a gearing ratio of not more than 100% as solid and reasonable. The table below analyses the Group's capital structure at 31st December 2007 and 2008 as follows:

	2008 HK$'000	2007 HK$'000
Total borrowings	323,816	274,379
Total equity	404,624	447,609
Gearing ratio	80%	61%

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade and other receivables, payables and amounts due from/to related parties are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimates of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

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

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

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

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(a) Estimates of fair value of investment properties (Continued)

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

Jones Lang LaSalle Sallmanns Limited was engaged to carry out independent valuations of the Group's investment properties as at 31st December 2008. These valuations were carried out in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors which defines market value as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion". Management has reviewed the valuations and compared them with their own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the valuations of the Group's investment properties are reasonable.

(b) Useful lives of property, plant and equipment

The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life of 3 to 5 years, and after taking into account of their estimated residual value commencing from the date the assets are placed into productive use. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(c) Provision for impairment of trade and other receivables

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

(d) Provision for inventories

The management of the Group reviews the marketability of inventory items at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes provision for obsolete items.

5 TURNOVER AND SEGMENTAL INFORMATION

(a) Primary reporting format – business segments

The Group is organised into two main business segments:

(i) Trading of a range of pipes and fittings on a wholesale and retail basis; and
(ii) Investment in properties for rental income

The segment results for the year ended 31st December 2008 are as follows:

	Trading of pipes and fittings HK$'000	Investment in properties HK$'000	Others HK$'000	Unallocated HK$'000	Group HK$'000
Total segment revenue	699,970	1,796	–	–	701,766
Segment results	85,030	(34,462)	(29,092)	(44,733)	(23,257)
Finance costs, net *(Note 9)*					(13,611)
Loss before income tax					(36,868)
Income tax expense *(Note 10)*					(5,728)
Loss for the year					(42,596)

The segment results for the year ended 31st December 2007 are as follows:

	Trading of pipes and fittings HK$'000	Investment in properties HK$'000	Others HK$'000	Unallocated HK$'000	Group HK$'000
Total segment revenue	631,908	1,760	–	–	633,668
Segment results	61,465	24,639	(1,062)	3,261	88,303
Finance costs, net *(Note 9)*					(3,720)
Profit before income tax					84,583
Income tax expense *(Note 10)*					(17,479)
Profit for the year					67,104

5 TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (Continued)

Other segment items included in the income statement are as follows:

	Year ended 31st December 2008				Year ended 31st December 2007		
	Trading of pipes and fittings HK$'000	Investment in properties HK$'000	Others HK$'000	Group HK$'000	Trading of pipes and fittings HK$'000	Investment in properties HK$'000	Group HK$'000
Depreciation of property, plant and equipment *(Note 16)*	2,526	977	–	3,503	2,368	74	2,442
(Written back of)/provision for impairment of trade and other receivables *(Note 8)*	(128)	–	24,004	23,876	932	–	932
Provision for impairment of inventories *(Note 8)*	5,251	–	–	5,251	2,203	–	2,203

Segment assets consist primarily of property, plant and equipment, investment properties, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets comprise deferred tax assets, tax recoverable, financial assets at fair value through profit or loss, amount due from a related company and cash and cash equivalents and other receivables of corporate office.

Segment liabilities comprise operating liabilities and borrowings. They exclude items such as taxation payable, deferred tax liabilities, loan from a director and other payables of corporate office.

Capital expenditure comprises mainly additions to property, plant and equipment, and investment properties as set out in Notes 16 and 17, respectively.

The segment assets and liabilities at 31st December 2008 and capital expenditure for the year then ended are as follows:

	Business segment				
	Trading of pipes and fittings HK$'000	Investment in properties HK$'000	Others HK$'000	Unallocated HK$'000	Group HK$'000
Assets	476,640	319,050	1,076	24,068	820,834
Liabilities	(273,497)	(103,123)	(709)	(38,881)	(416,210)
Capital expenditure *(Notes 16 and 17)*	2,180	71,080	27	–	73,287

5 TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (Continued)

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

	Assets HK$'000	Liabilities HK$'000
Segment assets/liabilities	796,766	(377,329)
Unallocated:		
Deferred income tax	–	(1,997)
Current income tax	893	(5,180)
Cash and cash equivalents	474	–
Other receivables	208	–
Other payables	–	(2,053)
Loan from a director	–	(29,651)
Financial assets at fair value through profit or loss	22,493	–
Total	820,834	(416,210)

The segment assets and liabilities at 31st December 2007 and capital expenditure for the year then ended are as follows:

	Business segment				
	Trading of pipes and fittings HK$'000	Investment in properties HK$'000	Others HK$'000	Unallocated HK$'000	Group HK$'000
Assets	524,209	248,554	10,079	34,650	817,492
Liabilities	(246,436)	(113,780)	(370)	(9,297)	(369,883)
Capital expenditure *(Notes 16 and 17)*	6,187	203,523	683	–	210,393

5 TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (Continued)

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

	Assets HK$'000	Liabilities HK$'000
Segment assets/liabilities	782,842	(360,586)
Unallocated:		
Deferred income tax	–	(5,780)
Current income tax	140	(1,449)
Cash and cash equivalents	1,347	–
Other receivables	10,225	–
Other payables	–	(2,068)
Financial assets at fair value through profit or loss	22,938	–
Total	817,492	(369,883)

(b) Secondary reporting format – geographical segments

The Group primarily operates in Hong Kong and the PRC. The Group's turnover by geographical location is determined by the country in which the customer is located.

	2008 HK$'000	2007 HK$'000
Revenue:		
Hong Kong	686,500	614,364
PRC	6,431	12,056
Others	8,835	7,248
Total	701,766	633,668

Total assets are allocated based on where the assets are located.

	2008 HK$'000	2007 HK$'000
Total assets:		
Hong Kong	574,736	579,631
PRC	242,016	235,220
Others	4,082	2,641
Total	820,834	817,492

5 TURNOVER AND SEGMENTAL INFORMATION (CONTINUED)

(b) Secondary reporting format – geographical segments (Continued)

Capital expenditure is allocated based on where the assets are located.

	2008 HK$'000	2007 HK$'000
Capital expenditure:		
Hong Kong	72,703	18,061
PRC	584	192,226
Others	–	106
Total	73,287	210,393

6 OTHER INCOME

	2008 HK$'000	2007 HK$'000
Dividend income from financial assets at fair value through profit or loss	–	20

7 OTHER (LOSSES)/GAINS, NET

	2008 HK$'000	2007 HK$'000
Fair value (losses)/gains on investment properties *(Note 17)*	(31,582)	23,202
Net fair value (losses)/gains on financial assets at fair value through profit or loss	(29,798)	4,288
Net exchange gains/(losses)	2,272	(434)
Gain on disposal of property, plant and equipment	536	170
	(58,572)	27,226

8 EXPENSES BY NATURE

	2008 HK$'000	2007 HK$'000
Cost of inventories	520,054	468,253
Auditor's remuneration	1,095	1,490
Depreciation of property, plant and equipment	3,503	2,442
Employee benefit expenses (including directors' emoluments *(Note 13)*)	60,071	52,940
Operating lease on land and buildings	15,718	14,392
Provision for impairment of trade and other receivables	23,876	932
Provision for impairment of inventories	5,251	2,203
Other expenses	36,883	29,959
	666,451	572,611
Representing:		
Cost of sales	534,856	477,906
Selling and distribution costs	18,968	18,968
Administrative expenses	112,627	75,737
	666,451	572,611

9 FINANCE COSTS, NET

	2008 HK$'000	2007 HK$'000
Bank interest income	(190)	(1,405)
Interest expense on loan from a director	159	–
Interest expense on bank borrowings wholly repayable within five years	6,169	5,014
Interest expense on bank borrowings not wholly repayable within five years	7,473	105
Others	–	6
	13,611	3,720

10 INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
Current taxation:		
– Hong Kong profits tax	9,149	10,070
– Overseas tax	414	493
– Over-provision in prior years	(52)	(7)
Total current tax	9,511	10,556
Deferred taxation *(Note 27)*		
– Origination and reversal of temporary differences	(3,639)	6,923
– Impact of change in Hong Kong profits tax rate	(144)	–
Total deferred tax	(3,783)	6,923
Income tax expense	5,728	17,479

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year. The rates applicable for income tax in the PRC is 25% (2007: 33%) for the year ended 31st December 2008.

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2008 HK$'000	2007 HK$'000
(Loss)/profit before income tax	(36,868)	84,583
Tax calculated at a taxation rate of 16.5% (2007: 17.5%)	(6,083)	14,802
Effect of different taxation rates in other countries	(4,185)	1,051
Remeasurement of deferred tax – change in Hong Kong profits tax rate	(144)	–
Utilisation of previously unrecognised tax losses	–	(53)
Unrecognised tax losses	7,014	260
Tax effect of income not subject to taxation	(114)	(301)
Tax effect of expenses not deductible for taxation purposes	9,292	1,727
Over-provision in prior years	(52)	(7)
Income tax expense	5,728	17,479

11 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$36,533,000 (2007: profit of HK$22,751,000).

12 DIVIDENDS

	2008 HK$'000	2007 HK$'000
Interim, paid, of HK0.02 cents (2007: HK0.04 cents) per ordinary share	2,507	4,837
Final, proposed, Nil (2007: HK0.08 cents) per ordinary share	–	10,026
	2,507	14,863

The directors do not recommend a final dividend for the year ended 31st December 2008.

13 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2008 HK$'000	2007 HK$'000
Wages and salaries	58,536	51,817
Pension costs – defined contribution plans	1,535	1,123
	60,071	52,940

14 DIRECTORS' EMOLUMENTS

The aggregate amounts of emoluments paid and payable to the directors of the Company during the year are as follows:

Name	Fees, salaries and emoluments HK$'000	Other benefits HK$'000	Group's contributions to retirement scheme HK$'000	Bonus HK$'000	2008 Total HK$'000	2007 Total HK$'000
Lai Guanglin *(note a)*	–	–	–	–	–	–
Cai Shangwu *(note a)*	–	–	–	–	–	–
U Kean Seng *(note a)*	–	–	–	–	–	–
Zhao Yue *(note a)*	–	–	–	–	–	–
Wong Yee Shuen *(note a)*	–	–	–	–	–	–
Sam Ming Choy *(note a)*	–	–	–	–	–	–
Lau Kwok Ting *(note a)*	–	–	–	–	–	–
Wing Man Yi *(note b)*	2,000	–	12	–	2,012	1,124
Lam Cheung Shing, Richard *(note b)*	2,000	19	12	342	2,373	1,184
Chan Wing Yuen, Hubert *(note b)*	2,000	60	12	342	2,414	1,184
Hu Yishi *(note c)*	100	–	–	–	100	116
Zhu Yongjun *(note d)*	1,400	–	12	24	1,436	690
Lui Tin Nang *(note e)*	200	–	–	–	200	100
Ko Ming Tung, Edward *(note e)*	200	–	–	–	200	100
Ho Yiu Yue, Louis *(note e)*	200	–	–	–	200	100
Hu Jinxing *(note c)*	100	–	–	–	100	117
Zhang Yang *(note f)*	100	–	–	–	100	100
Tsang Chung Yin *(note g)*	–	–	–	–	–	3,562
Tsang Yin *(note g)*	–	–	–	–	–	3,894
Chan Churk Kai *(note g)*	–	–	–	–	–	2,693
Tsang Ngan Chung *(note g)*	–	–	–	–	–	3,508
Ngai Chui Ling *(note g)*	–	–	–	–	–	723
Chan Yuk Tong *(note g)*	–	–	–	–	–	60
Chan Yuk Ming *(note g)*	–	–	–	–	–	60
Wong, Samuel Kwok Kay *(note g)*	–	–	–	–	–	60
Total 2008	8,300	79	48	708	9,135	
Total 2007	9,754	1,096	62	8,463		19,375

Notes:

a. Appointed on 23rd February 2009

b. Appointed on 11th June 2007 and resigned on 23rd February 2009

c. Appointed on 11th June 2007 and retired on 6th June 2008

d. Appointed on 6th July 2007 and resigned on 23rd February 2009

e. Appointed on 3th July 2007 and resigned on 23rd February 2009

f. Appointed on 6th July 2007 and resigned on 26th September 2008

g. Resigned on 3rd July 2007

14 DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of the directors fell within the following bands:

	2008	2007
Nil to HK$1,000,000	6	11
HK$1,000,001 to HK$1,500,000	1	3
HK$2,000,001 to HK$2,500,000	3	–
HK$2,500,001 to HK$3,000,000	–	1
HK$3,500,001 to HK$4,000,000	–	3
	10	18

Emoluments paid to Independent Non-executive directors amounted to HK$600,000 (2007: HK$480,000). Emoluments paid to Non-executive directors amounted to HK$200,000 (2007: HK$216,667).

The five individuals whose emoluments were the highest in the Group for the year included three (2007: five) directors whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining two (2007: Nil) individuals (one of them is a former director of the Company) are as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other short-term employee benefits	3,097	–
Pension costs – defined contribution plans	414	–
Compensation for loss of office	360	–
	3,871	–

14 DIRECTORS' EMOLUMENTS (CONTINUED)

The emoluments of the two individuals fell within the following bands:

	2008	2007
HK$1,500,001 to HK$2,000,000	1	–
HK$2,000,001 to HK$2,500,000	1	–
	2	–

During the year, no directors waived any emoluments and no emoluments had been paid by the Group to the directors as an inducement to join or upon joining the Group. For the year ended 31st December 2008, HK$1,104,000 (2007: Nil) had been paid to former directors of the Company as compensation for loss of office.

15 (LOSS)/EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's loss attributable to shareholders of HK$42,596,000 (2007: profit of HK$67,104,000) and the weighted average of 12,532,700,000 shares (2007: 12,185,522,000 shares).

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

There were no dilutive potential ordinary shares in years 2007 and 2008.

16 PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Office furniture, fixtures and fittings HK$'000	Office equipment HK$'000	Machinery and equipment HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1st January 2007							
Cost	7,232	516	195	3,313	5,400	6,530	23,186
Accumulated depreciation	(5,422)	(516)	(77)	(2,812)	(4,639)	(5,609)	(19,075)
Net book amount	1,810	–	118	501	761	921	4,111
Year ended 31st December 2007							
Opening net book amount	1,810	–	118	501	761	921	4,111
Translation differences	21	–	13	115	–	72	221
Additions	1,258	491	30	2,786	1,734	4,211	10,510
Depreciation	(874)	(7)	(41)	(435)	(522)	(563)	(2,442)
Net book amount	2,215	484	120	2,967	1,973	4,641	12,400
At 31st December 2007							
Cost	8,511	1,007	239	6,220	7,134	8,292	31,403
Accumulated depreciation	(6,296)	(523)	(119)	(3,253)	(5,161)	(3,651)	(19,003)
Net book amount	2,215	484	120	2,967	1,973	4,641	12,400
Year ended 31st December 2008							
Opening net book amount	2,215	484	120	2,967	1,973	4,641	12,400
Translation differences	42	19	7	172	–	460	700
Additions	939	60	6	560	337	305	2,207
Disposals	–	–	–	–	–	(13)	(13)
Depreciation	(902)	(105)	(41)	(482)	(585)	(1,388)	(3,503)
Net book amount	2,294	458	92	3,217	1,725	4,005	11,791
At 31st December 2008							
Cost	9,493	1,086	257	6,958	7,471	6,551	31,816
Accumulated depreciation	(7,199)	(628)	(165)	(3,741)	(5,746)	(2,546)	(20,025)
Net book amount	2,294	458	92	3,217	1,725	4,005	11,791

Depreciation expense of HK$3,503,000 (2007: HK$2,442,000) has been included in administrative expenses.

17 INVESTMENT PROPERTIES

	Group	
	2008 HK$'000	2007 HK$'000
At 1st January	243,363	16,800
Translation differences	12,637	3,478
Additions	71,080	199,883
Fair value (losses)/gains *(Note 7)*	(31,582)	23,202
At 31st December	295,498	243,363

The following amounts have been recognised in the income statement:

	2008 HK$'000	2007 HK$'000
Rental income	1,796	1,760

The investment properties were revalued at 31st December 2008 by Jones Lang LaSalle Sallmanns Limited, independent professional valuers, for properties located in Hong Kong and the PRC respectively. Valuations were based on current prices in an active market for all properties.

At 31st December 2008, investment properties with carrying values of HK$295,498,000 located both in Hong Kong and PRC have been pledged for banking facilities *(Note 26(h))*.

For the year ended 31st December 2008, the period of leases whereby the Group leases out its investment properties under operating leases is 2 years.

The Group's interests in investment properties at their carrying values are analysed as follows:

	2008 HK$'000	2007 HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	102,500	42,600
In PRC, held on:		
Leases of over 50 years	192,998	200,763
	295,498	243,363

17 INVESTMENT PROPERTIES (CONTINUED)

The future aggregate minimum lease receivables under non-cancellable operating leases in respect of its investment properties are as follows:

	2008 HK$'000	2007 HK$'000
Not later than one year	1,480	1,620
Later than one year and not later than five years	540	1,255
	2,020	2,875

18 INVESTMENTS IN SUBSIDIARIES

Interests in subsidiaries

	Company	
	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost less impairment	96,901	271,938

Amounts due from subsidiaries

	Company	
	2008 HK$'000	2007 HK$'000
Amounts due from subsidiaries	231,481	30,805
Less: Provision for impairment	(12,048)	–
	219,433	30,805

The amounts due from subsidiaries are unsecured, interest-free, and repayable on demand.

The amounts due from subsidiaries are denominated in Hong Kong dollars. The carrying amounts approximate their fair values.

18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Amounts due to subsidiaries

As at 31st December 2008, the amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

As at 31st December 2007, the amount due to a subsidiary of HK$70,000,000 was unsecured, interest bearing at 1.25% above Hong Kong Inter Bank Offering Rate and repayable after five years. The remaining balances of amounts due to subsidiaries were unsecured, interest-free and repayable on demand.

The carrying values of amounts due to subsidiaries approximate their fair values.

Particulars of the subsidiaries at 31st December 2008 are as follows:

Company	Place of incorporation/ establishment and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of attributable equity	Principal activities and place of operation
Held directly:				
World Trade Bun Kee (BVI) Ltd.	British Virgin Islands, limited liability company	10,000 ordinary shares of US$1 each	100%	Investment holding in Hong Kong
Merchant Capital Limited	Hong Kong, limited liability company	100 ordinary shares of HK$1 each	100%	Investment holding in Hong Kong
Noble Win International Limited	British Virgin Islands, limited liability company	100 ordinary shares of US$1 each	100%	Investment holding in Hong Kong
Glory Star Trading Limited	British Virgin Islands, limited liability company	1,000 ordinary shares of US$1 each	100%	Property investment in Hong Kong

18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries at 31st December 2008 are as follows: (Continued)

Company	Place of incorporation/ establishment and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of attributable equity	Principal activities and place of operation
Held indirectly:				
Bun Kee (International) Limited	Hong Kong, limited liability company	100 ordinary shares of HK$1 each 3,000,000 non-voting deferred shares of HK$1 each	100%	Trading of construction materials, mainly pipes and fittings in Hong Kong
Hamerwind Logistic Company Limited	Hong Kong, limited liability company	800 ordinary shares of HK$100 each	100%	Provision of warehousing and logistic services in Hong Kong
Hing's Godown & Transportation Company Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK$100 each	100%	Provision of warehousing services in Hong Kong
National Link Investment Limited	Hong Kong, limited liability company	600,000 ordinary shares of HK$1 each	100%	Provision of agency services and investment in Hong Kong
Patterson Engineering Company Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK$100 each	100%	Trading of construction materials, provision of agency services and property investment in Hong Kong
Huge Vantage International Industrial Limited	Hong Kong, limited liability company	100,000 ordinary shares of HK$1 each	100%	Trading of sanitary products fluorescent lamps and steel products in Hong Kong

18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the subsidiaries at 31st December 2008 are as follows: (Continued)

Company	Place of incorporation/ establishment and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of attributable equity	Principal activities and place of operation
Held indirectly (Continued):				
Easytech Enterprise Limited	Hong Kong, limited liability company	100 ordinary shares of HK$1 each	100%	Investment holding in Hong Kong
Bun Kee Building Material (Shanghai) Co., Ltd.	PRC, wholly foreign-owned enterprise	US$200,000	100%	Trading of construction materials, mainly pipes and fittings in the PRC
Bun Kee Building Material (Guangzhou) Co., Ltd	PRC, wholly foreign-owned enterprise	HK$9,000,000	100%	Assembling materials in the PRC
Bun Kee Building Material and Equipment (Macao) Co., Ltd	Macau, limited liability company	MOP50,000	100%	Trading of construction materials, mainly pipes and fittings in Macau
Shanghai Guohong Trading Co., Ltd	PRC, wholly foreign-owned enterprise	RMB50,000,000	100%	Trading in the PRC
上海兆雍投資諮詢有限公司	PRC, wholly foreign-owned enterprise	US$5,000,000	100%	Property investment in the PRC

19 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line item below:

Group

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Total HK$'000
Assets as per consolidated balance sheet			
31st December 2008			
Trade and other receivables	187,840	–	187,840
Financial assets at fair value through profit or loss *(Note 22)*	–	22,493	22,493
Pledged bank deposit *(Note 23)*	20,000	–	20,000
Cash and cash equivalents *(Note 24)*	19,476	–	19,476
Total	227,316	22,493	249,809
31st December 2007			
Trade and other receivables	222,579	–	222,579
Financial assets at fair value through profit or loss *(Note 22)*	–	22,938	22,938
Amount due from a related company *(Note 32)*	8,586	–	8,586
Cash and cash equivalents *(Note 24)*	33,272	–	33,272
Total	264,437	22,938	287,375

	Other financial liabilities HK$'000
Liabilities as per consolidated balance sheet	
31st December 2008	
Trade and other payables *(Note 25)*	83,223
Loan from a director *(Note 32)*	29,651
Amounts due to related companies *(Note 32)*	1,994
Borrowings *(Note 26)*	294,165
Total	409,033
31st December 2007	
Trade and other payables *(Note 25)*	88,275
Borrowings *(Note 26)*	274,379
Total	362,654

19 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company

	Loans and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Total HK$'000
Assets as per balance sheet			
31st December 2008			
Deposits and other receivables	158	–	158
Financial assets at fair value through profit or loss *(Note 22)*	–	22,493	22,493
Amounts due from subsidiaries *(Note 18)*	219,433	–	219,433
Cash and cash equivalents *(Note 24)*	474	–	474
Total	220,065	22,493	242,558
31st December 2007			
Deposits and other receivables	10,119	–	10,119
Financial assets at fair value through profit or loss *(Note 22)*	–	22,938	22,938
Amounts due from subsidiaries *(Note 18)*	30,805	–	30,805
Cash and cash equivalents *(Note 24)*	1,347	–	1,347
Total	42,271	22,938	65,209

	Other financial liabilities HK$'000
Liabilities as per balance sheet	
31st December 2008	
Other payables	2,053
Amounts due to subsidiaries *(Note 18)*	145,872
Loan from a director *(Note 32)*	29,651
Total	177,576
31st December 2007	
Other payables	2,068
Amounts due to subsidiaries	123,182
Total	125,250

20 INVENTORIES

	Group	
	2008	2007
	HK$'000	HK$'000
Merchandises	260,337	271,984

At 31st December 2008, the provision for impairment of inventories amounted to HK$16,802,000 (2007: HK$11,551,000).

The cost of inventories recognised as expenses and included in cost of sales amounted to HK$520,054,000 (2007: HK$468,253,000).

21 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	145,844	193,067	–	–
Less: provision for impairment of receivables	(967)	(2,432)	–	–
Trade receivables, net	144,877	190,635	–	–
Prepayments	2,506	2,230	50	106
Other receivables and assets, net	40,306	28,534	158	10,119
Rental deposits	2,657	3,410	–	–
	190,346	224,809	208	10,225
Less: non-current portion	(972)	(3,257)	–	–
	189,374	221,552	208	10,225

The carrying amounts of trade receivables, other receivables, other assets and rental deposits approximate their fair values.

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2008 HK$'000	2007 HK$'000
Hong Kong dollars	164,571	211,912
RMB	25,310	12,863
MOP	465	34
	190,346	224,809

During the year, the Group normally granted credit terms of 90 – 120 days. The ageing analysis of the debtors, based on the due date is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
Within credit period	101,131	110,563
0 – 30 days	20,209	41,829
31 – 60 days	7,075	17,988
61 – 90 days	6,127	10,272
91 – 120 days	2,205	4,620
Over 120 days	9,097	7,795
	145,844	193,067

Trade receivables that are current or past due less than four months are not considered impaired. As of 31st December 2008, trade receivables of HK$43,746,000 (2007: HK$80,072,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2008 HK$'000	2007 HK$'000
0 – 30 days	20,209	41,829
31 – 60 days	7,075	17,988
61 – 90 days	6,127	10,272
91 – 120 days	2,205	4,620
Over 120 days	8,130	5,363
	43,746	80,072

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

As of 31st December 2008, trade receivables of HK$967,000 (2007: HK$2,432,000) were impaired. The amount of the provision was HK$967,000 as of 31st December 2008 (2007: HK$2,432,000). The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. These receivables are over 120 days past due.

A subsidiary of the Group discounted certain trade receivables amounting to approximately HK$2,600,000 (2007: HK$12,091,000) with recourse in exchange for cash as at 31st December 2008. The transactions have been accounted for as short-term borrowings.

Movements on the provision for impairment of trade receivables are as follows:

	2008 HK$'000	2007 HK$'000
At 1st January	2,432	2,200
Provision for receivable impairment	314	1,047
Receivables written off during the year as uncollectible	(1,337)	(700)
Unused amounts reversed	(442)	(115)
At 31st December	967	2,432

The creation and release of provision for impaired receivables have been included in administrative expenses in the income statement. Amounts charged to the provision are generally written off when there is no expectation of recovering additional cash.

As of 31st December 2008, other receivables of HK$24,004,000 (2007: Nil) were impaired. The amount of provision was HK$24,004,000 as of 31st December 2008 (2007: Nil) and has been included in administrative expenses in the income statement. The individually impaired other receivables mainly related to counterparties, which are in unexpected difficult economic situations.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Market value of equity securities listed in Hong Kong	22,493	22,938	22,493	22,938

Changes in fair values of financial assets at fair value through profit or loss are recognised in other (losses)/gains, net in the income statement.

The fair values of all equity securities are based on their current bid prices in an active market.

All the equity securities were subsequently disposed of by the Group at an aggregate consideration of HK$28 million in April 2009.

23 PLEDGED BANK DEPOSIT

As at 31st December 2008, bank deposit of HK$20,000,000 (2007: Nil) denominated in Hong Kong dollars was pledged as collateral for the Group's banking facilities *(Note 26)*.

The effective interest rate on pledged bank deposit was 0.4% per annum, this deposit has an average maturity of 62 days.

24 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Cash at bank and in hand	19,476	33,272	474	1,347
Maximum exposure to credit risk	18,816	33,175	474	1,347

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Cash and cash equivalents	19,476	33,272	474	1,347
Bank overdrafts *(Note 26)*	(2,160)	(9)	–	–
	17,316	33,263	474	1,347

24 CASH AND CASH EQUIVALENTS (CONTINUED)

The carrying amounts of the Group and the Company's cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Hong Kong dollars	13,448	26,192	474	1,347
RMB	3,265	4,090	–	–
United States dollars	234	1,247	–	–
Australian dollars	776	965	–	–
Euro	30	–	–	–
Other currencies	1,723	778	–	–
	19,476	33,272	474	1,347

The conversion of these RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

25 TRADE AND OTHER PAYABLES

	Group	
	2008 HK$'000	2007 HK$'000
Trade payables	46,880	37,960
Accrued expenses and other payables	36,343	50,315
	83,223	88,275

Details of the ageing analysis of trade payables are as follows:

	2008 HK$'000	2007 HK$'000
Current – 30 days	24,845	21,600
31 – 60 days	3,134	9,998
61 – 90 days	3,257	5,792
Over 90 days	15,644	570
	46,880	37,960

25 TRADE AND OTHER PAYABLES (CONTINUED)

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	2008 HK$'000	2007 HK$'000
Hong Kong dollars	41,568	52,074
United States dollars	29,428	30,554
RMB	6,794	3,416
Euro	3,964	2,013
Other currencies	1,469	218
	83,223	88,275

26 BORROWINGS

	Group	
	2008 HK$'000	2007 HK$'000
Non-current		
Long-term bank borrowings *(Note a)*	134,155	70,000
Current		
Current portion of long-term bank borrowings *(Note a)*	34,996	–
Short-term bank borrowings *(Note b)*	30,973	74,091
Trust receipt loans *(Note b)*	91,881	130,279
Bank overdrafts *(Note 24) (Note b)*	2,160	9
	160,010	204,379
	294,165	274,379
Representing:		
Unsecured	72,864	140,600
Secured *(Note h)*	221,301	133,779
	294,165	274,379

26 BORROWINGS (CONTINUED)

(a) The long-term bank borrowings are secured and are at floating rates. The carrying amounts and fair values of the long-term bank borrowings are as follows:

	2008 HK$'000	2007 HK$'000
Long-term bank borrowings		
Carrying amounts	169,151	70,000
Fair values	180,254	71,347

The fair values of current borrowings equal their carrying amounts as the impact of discounting is not significant. The fair values of long-term borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group of 2.05% (2007: 4.70%) for financial instruments with substantially the same terms and characteristics for the year ended 31st December 2008, depending on the type and currency of borrowings.

(b) The carrying amounts of the short-term bank borrowings, trust receipt loans and bank overdrafts approximate their fair values. As at 31st December 2008, short-term bank borrowings of HK$16,116,000 (2007: HK$40,000,000) and trust receipt loans of HK$36,034,000 (2007: HK$23,779,000) are secured.

(c) The bank borrowings are denominated in the following currencies:

	2008 HK$'000	2007 HK$'000
Hong Kong dollars	241,633	274,379
RMB	52,532	–
	294,165	274,379

(d) The effective interest rates (per annum) at the balance sheet date are as follows:

	2008	2007
Long-term bank borrowings	2.86%	4.97%
Short-term bank borrowings	2.41%	4.45%
Trust receipt loans	3.70%	4.78%
Bank overdrafts	6.26%	10.66%

26 BORROWINGS (CONTINUED)

(e) All short-term bank borrowings, trust receipt loans and bank overdrafts will mature within one year. The maturity of long-term bank borrowings are as follows:

	2008 HK$'000	2007 HK$'000
Within one year	34,996	–
Between one and two years	15,566	6,780
Between two and five years	46,832	20,340
Wholly repayable within five years	97,394	27,120
Over five years	71,757	42,880
	169,151	70,000

(f) The Group has the following undrawn borrowing facilities:

	2008 HK$'000	2007 HK$'000
Floating rate		
– expiring within one year	24,272	64,124

As at 31st December 2008, the facilities were subject to annual review at various dates.

(g) The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	2008 HK$'000	2007 HK$'000
Six months or less	202,284	144,100

(h) The Group had aggregate banking facilities of approximately HK$327,269,000 as at 31st December 2008 (2007: HK$384,191,000) for overdrafts, term loans and other trade finance facilities. Banking facilities utilised as at 31st December 2008 amounted to approximately HK$302,997,000 (2007: HK$320,067,000). The banking facilities were secured by corporate guarantees from the Company, investment properties held by subsidiaries with carrying values of HK$295,498,000 (2007: HK$42,600,000) *(Note 17)* and bank deposit of HK$20,000,000 (2007: Nil) *(Note 23)*.

27 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group	
	2008 HK$'000	2007 HK$'000
Deferred tax liabilities to be settled after more than 12 months	(1,997)	(5,780)

The gross movement on the net deferred income tax assets/(liabilities) account is as follows:

	2008 HK$'000	2007 HK$'000
At 1st January	(5,780)	1,143
Deferred income tax credited/(charged) to income statement *(Note 10)*	3,783	(6,923)
At 31st December	(1,997)	(5,780)

The movement in deferred income tax assets/(liabilities) (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets

	Tax depreciation		Provisions		Total	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
At 1st January	–	78	–	1,636	–	1,714
Charged to income statement	–	(78)	–	(1,636)	–	(1,714)
At 31st December	–	–	–	–	–	–

27 DEFERRED INCOME TAX (CONTINUED)

Deferred tax liabilities

	Tax depreciation		Revaluation on investment properties		Total	
	2008	2007	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January	(390)	(220)	(5,390)	(351)	(5,780)	(571)
(Charged)/credited to income statement	(62)	(170)	3,845	(5,039)	3,783	(5,209)
At 31st December	(452)	(390)	(1,545)	(5,390)	(1,997)	(5,780)

Deferred income tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of HK$7,014,000 (2007: HK$260,000) in respect of accumulated tax losses amounting to HK$36,762,000 (2007: HK$1,040,000) as at 31 December 2008, that can be carried forward against future taxable income. As at 31 December 2008, the accumulated tax losses amounting to HK$11,157,000 (2007: HK$1,040,000) will be expired in five years. There is no expiry period for the other tax losses.

28 SHARE CAPITAL

	No. of ordinary shares	Nominal value of ordinary shares HK$'000
Authorised:		
As at 1st January 2007 of HK$0.1 per share	500,000,000	50,000
Increase in authorised share capital *(note i)*	4,500,000,000	450,000
Share subdivision *(note ii)*	245,000,000,000	–
As at 31st December 2007 and 2008 of HK$0.002 per share	250,000,000,000	500,000
Issued and fully paid:		
As at 1st January 2007 of HK$0.1 per share	241,854,000	24,185
Share subdivision *(note ii)*	11,850,846,000	–
Issue of new shares *(note iii)*	440,000,000	880
As at 31st December 2007 and 2008 of HK$0.002 per share	12,532,700,000	25,065

28 SHARE CAPITAL (CONTINUED)

Notes:

(i) Pursuant to an ordinary resolution of the Company passed on 29th May 2007, the authorised share capital of the Company increased from HK$50,000,000 divided into 500,000,000 shares to HK$500,000,000 divided into 5,000,000,000 shares by the creation of 4,500,000,000 new shares of HK$0.1 each which rank pari passu in all respects with the existing shares.

(ii) Pursuant to an ordinary resolution of the Company on 31st August 2007, the par value of ordinary share of HK$0.1 was subdivided to par value of HK$0.002.

(iii) On 16th October 2007, the Company allotted and issued 440,000,000 new shares of HK$0.002 at the issue price of HK$0.12 per share, for cash. Net proceed from the placing is HK$50,953,000. The proceeds are used for the Group's trading business in the PRC.

The Company has adopted a share option scheme (the "Scheme") under which the directors of the Company are authorised at their absolute discretion, to invite any eligible director as defined in the Scheme, to take up options to subscribe for shares in the Company. The subscription price will be determined by the Board, but shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant options are deemed to be granted and accepted in accordance with the terms of the Scheme (the "Commencement Date"), which must be a day on which the Stock Exchange is open for the business of dealing in securities ("Trading Day"); (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five Trading Days immediately preceding the Commencement Date; and (c) the nominal value of the shares. A consideration of HK$10 is payable on acceptance of the grant of an option. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued share capital of the Company as at the date of adoption of the Scheme. The Scheme became effective for a period of ten years commencing 24th June 2004. No option has been granted since the date of adoption of the Scheme.

29 RESERVES

Group

	Share premium HK$'000	Capital reserve *(note i)* HK$'000	Exchange reserve HK$'000	Merger reserve *(note ii)* HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2007	29,345	34,115	–	3,700	248,519	315,679
Issue of new shares, net of expenses *(Note 28)*	50,073	–	–	–	–	50,073
Exchange differences arising on translation of financial statements of subsidiaries	–	–	4,199	–	–	4,199
Profit attributable to shareholders	–	–	–	–	67,104	67,104
Dividends paid *(Note 12)*						
2007 final dividend	–	–	–	–	(9,674)	(9,674)
2008 interim dividend	–	–	–	–	(4,837)	(4,837)
At 31st December 2007	79,418	34,115	4,199	3,700	301,112	422,544
Proposed final dividend *(Note 12)*	–	–	–	–	(10,026)	(10,026)
	79,418	34,115	4,199	3,700	291,086	412,518
At 1st January 2008	79,418	34,115	4,199	3,700	301,112	422,544
Exchange differences arising on translation of financial statements of subsidiaries	–	–	12,144	–	–	12,144
Loss attributable to shareholders	–	–	–	–	(42,596)	(42,596)
Dividends paid *(Note 12)*						
2007 final dividend	–	–	–	–	(10,026)	(10,026)
2008 interim dividend	–	–	–	–	(2,507)	(2,507)
At 31st December 2008	79,418	34,115	16,343	3,700	245,983	379,559

29 RESERVES (CONTINUED)

Company

	Contributed surplus *(note iii)* HK$'000	Share premium HK$'000	Retained profits/ (accumulated loss) HK$'000	Total HK$'000
At 1st January 2007	86,759	29,345	11,932	128,036
Issue of new shares, net of expenses *(Note 28)*	–	50,073	–	50,073
Profit attributable to shareholders	–	–	22,751	22,751
Dividends paid *(Note 12)*				
2007 final dividend	–	–	(9,674)	(9,674)
2008 interim dividend	–	–	(4,837)	(4,837)
At 31st December 2007	86,759	79,418	20,172	186,349
Proposed final dividend *(Note 12)*	–	–	(10,026)	(10,026)
	86,759	79,418	10,146	176,323
At 1st January 2008	86,759	79,418	20,172	186,349
Loss attributable to shareholders	–	–	(36,533)	(36,533)
Dividends paid *(Note 12)*				
2007 final dividend	–	–	(10,026)	(10,026)
2008 interim dividend	–	–	(2,507)	(2,507)
At 31st December 2008	86,759	79,418	(28,894)	137,283

(i) The capital reserve of the Group arose from acquisition of the remaining interests in a subsidiary in 1999. The balance represents the excess of the fair value attributable to the net assets and liabilities acquired over the consideration paid.

(ii) The merger reserve of the Group arising from the group reorganisation is determined by the difference between the nominal value of shares of the subsidiaries acquired pursuant to the group reorganisation and the nominal value of the Company's shares deemed to have been issued.

29 RESERVES (CONTINUED)

(iii) The contributed surplus of the Company represents the difference between the nominal value of the shares issued by the Company in exchange for all the issued ordinary shares of World Trade Bun Kee (BVI) Ltd. and the value of net assets of the underlying subsidiaries acquired by the Company in 2000. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders, subject to a solvency test. At the group level, the contributed surplus is reclassified into its component of reserves of the underlying subsidiaries.

(iv) At 31st December 2008, reserves of the Company available for distribution, including the contributed surplus, amounted to HK$57,865,000 (2007: HK$106,931,000).

30 CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of (loss)/profit before income tax to cash generated from/(used in) operations:

	2008 HK$'000	2007 HK$'000
(Loss)/profit before income tax	(36,868)	84,583
Adjustments for:		
– Deprecation of property, plant and equipment	3,503	2,442
– Gain on disposal of property, plant and equipment	(536)	(170)
– Fair value losses/(gains) on investment properties	31,582	(23,202)
– Net fair value losses/(gains) on financial assets at fair value through profit or loss	29,798	(4,288)
– Interest income	(190)	(1,405)
– Dividend income from financial assets at fair value through profit or loss	–	(20)
– Interest expenses	13,801	5,125
Changes in working capital		
– Decrease/(increase) in inventories	11,647	(38,350)
– Decrease/(increase) in trade and other receivables	34,463	(62,625)
– Increase in financial assets at fair value through profit or loss	(29,353)	(15,149)
– Decrease/(increase) in amount due from a related company	8,586	(8,586)
– (Decrease)/increase in trade and other payables	(5,211)	38,681
– Increase/(decrease) in amounts due to related companies	1,994	(968)
Cash generated from/(used in) operations	63,216	(23,932)

30 CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2008 HK$'000	2007 HK$'000
Net book amount	13	–
Gain on disposal of property, plant and equipment	536	170
Proceeds from disposal of property, plant and equipment	549	170

31 OPERATING LEASES

At 31st December 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2008 HK$'000	2007 HK$'000
Not later than one year	13,291	15,114
Later than one year and not later than five years	5,802	16,421
	19,093	31,535

32 RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant related party transactions, which were carried out in the normal course of the Group's business at prices and terms mutually agreed between parties as follows:

(a) Expenses

	2008 HK$'000	2007 HK$'000
Rental expenses paid to related companies *(Note)*	11,964	11,747

Note:

The related companies are beneficially owned and controlled by certain key management of the Group during the year. Rental expenses were paid to these companies for leasing office premises, retail outlets and warehouses of the Group.

32 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) During the year, the Group disposed of two motor vehicles to certain key management of the Group at a cash consideration of HK$540,000. A gain on disposal of property, plant and equipment has been recognised in the income statement.

(c) As at 31st December 2008, the Company held equity interests in a related company, which is incorporated and listed on the Hong Kong Stock Exchange, amounting to HK$6,050,000 (2007: HK$22,938,000) (included in financial assets at fair value through profit or loss). The related company is controlled by certain former directors of the Company.

(d) Year end balances

	2008 HK$'000	2007 HK$'000
Amounts due to related companies *(Note i)*	1,994	–
Amount due from a related company *(Note ii)*	–	8,586
Loan from a director *(Note iii)*	29,651	–

Notes

(i) The related companies are beneficially owned and controlled by certain key management of the Group. The balances were unsecured, interest-free and repayable on demand.

(ii) The related company is controlled by certain former directors of the Company. The balance was unsecured, interest-free and repayable on demand. The balance had been fully settled in February 2008.

(iii) The loan is from Mr. Lai Guanglin, a director of the Company. The balance is unsecured, bears interest at 1% per month and not repayable within the next twelve months.

(e) Key management compensation

The aggregated amounts of emoluments paid or payable to key management of the Company are as follows:

	2008 HK$'000	2007 HK$'000
Salaries and other short-term employee benefits	20,911	29,769
Pension costs – defined contribution plans	1,367	979
	22,278	30,748

33 ULTIMATE HOLDING COMPANY

Prior to 27th October 2008, the directors regarded Maxable International Enterprises Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company. After the same date, the directors regard Singapore Zhongxin Investment Company Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.