You should read the discussion and analysis set forth in this section in conjunction with our consolidated financial information and the consolidated financial information of Hainan Cement for the years ended December 31, 2006, 2007 and 2008, and the six months ended June 30, 2008 (unaudited) and 2009, and in each case, together with the accompanying notes. Our consolidated financial information and the consolidated financial information of Hainan Cement were prepared in accordance with HKFRS.

The consolidated statements of comprehensive income for the six months ended June 30, 2008 and the consolidated statements of financial position as at June 30, 2008 have been derived from our unaudited consolidated financial statements included elsewhere in the document. We have prepared the unaudited interim consolidated financial statements on the same basis as our audited consolidated financial statements. The unaudited interim consolidated financial statements include all adjustments, consisting only of normal and recurring adjustments that we consider necessary to fairly present our financial positions for the periods indicated.

Our historical results do not necessarily indicate results expected for any future periods. In addition, our results as at and for, the six months ended June 30, 2009 may not be indicative of our results for the full year ending December 31, 2009. The discussion and analysis of our financial condition contains forward-looking statements that involve risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" of this document.

OVERVIEW

We are a leading cement and concrete producer in Southern China. Our operations range from the excavation of limestone to the production, sale and distribution of cement and cement products, clinker, and concrete. We distribute our products through a well established waterway, railway and road logistics network. Our products are mainly sold in Guangdong, Guangxi and Fujian. Our cement products are sold under the trademarks of 華潤 (Huarun) and 紅水河 (Hongshuihe).

We are the largest NSP cement and clinker producer in Southern China by production capacity according to the China Cement Net and the second largest concrete producer in China by sales volume according to the China Concrete Website. In 2008, our sales in Guangdong and Guangxi accounted for 92.3% of our total turnover from continuing operations. Our products have been used in a number of high-profile construction and infrastructure projects.

Our principal products are cement, clinker and concrete. Currently, we have a total of 11 clinker production lines and 31 cement grinding lines. We also have 20 concrete batching plants currently in operation located in Guangxi, Guangdong and Fujian. After we re-acquired Redland Concrete on December 31, 2008, we added three concrete batching plants located in Hong Kong. One of the three is currently leased to an independent third party. In 2008, we sold 13.2 million tons of cement, 1.3 millions tons of clinker and 5.6 million m^3 of concrete, each accounting for 64.6%, 5.7% and 29.7% of our total turnover from continuing operations in 2008, respectively.

We have achieved significant growth during the Track Record Period. Our turnover from continuing operations increased significantly from HK$2,111.7 million in 2006, to HK$3,743.2 million in 2007 and further to HK$5,781.3 million in 2008, representing a CAGR of 65.5%. In addition, our net profit from continuing operations increased from HK$82.6 million in 2006 to HK$358.8 million in 2007 and further to HK$783.7 million in 2008, representing a CAGR of 208.0%. Our turnover and net profit from continuing operations for the six months ended June 30, 2009 was HK$2,738.7 million and HK$369.6 million, respectively.

BASIS OF PRESENTATION

Our financial information throughout the Track Record Period has been prepared using the principles of merger accounting as set forth in Accounting Guideline 5 "Merger accounting for common control combinations" issued by the HKICPA, and includes the results and cash flows of the companies comprising our Group pursuant to our 2007 and 2008 reorganization as if the business combination had occurred from the date when the combining entities or businesses first came under the control of China Resources (Holdings) Company Limited. Our consolidated statements of financial position as at December 31, 2006, 2007 and 2008 and June 30, 2009 have been prepared in accordance with the principles of merger accounting to present the assets and liabilities of the companies comprising our Group as if our structure had been in existence as at those dates and in accordance with the respective equity interests in the individual companies attributable to equity shareholders of our Company as at those dates. Please see the section headed "History and Reorganization" for more details of our corporate structure. All intra-group transactions and balances have been eliminated on consolidation.

The results of operations of CR Precast, which we disposed of in December 2007, have been included in our consolidated statements of comprehensive income during the Track Record Period as a separate line item entitled "(Loss) profit for the year from discontinued operations." The assets and liabilities of CR Precast are reflected in our consolidated statements of financial position as at December 31, 2006, but not in our consolidated statements of financial position as at December 31, 2007 and 2008. For more information, please see note 14 in the Accountants' Report of the Company set forth in Appendix I to this document.

The results of operations of Redland Concrete have been included in our consolidated statements of comprehensive income for the year ended December 31, 2008. We disposed of the entire issued voting share capital of Redland Concrete to CR Gas, a subsidiary of CRH, in March 2008 and we re-acquired the entire issued share capital of the parent company of Redland Concrete from CR Gas in December 2008. Redland Concrete and our Company were controlled by CRH before and after the transfer of our interest. Our equity interest in Redland Concrete was considered to be 100% throughout the years ended December 31, 2007 and 2008, except for the period from March 5, 2008 to December 31, 2008, the period during which Redland Concrete was not effectively 100% held by our Group.

Application of New and Revised Hong Kong Financial Reporting Standards

The HKICPA issued a number of new Hong Kong Accounting Standards and HKFRS and amendments and interpretations thereto, which are effective for our financial periods beginning January 1, 2009. For the purposes of preparing the Financial Information for the Track Record Period, we have adopted all these new HKFRS consistently throughout the Track Record Period.

As of the date of this document, the HKICPA has issued a number of standards, amendments and interpretations that are not yet effective. Please see note 2 to the Accountants' Report of the Company set forth in Appendix I of this document for more information.

As a result of the application of new and revised HKFRS, we have added the following key items to the other comprehensive income section of our consolidated statements of comprehensive income.

Other Comprehensive Income

Exchange differences arising on translation of foreign operations

The amount represents the translation of our financial information from our functional currency of Renminbi into our presentation currency of Hong Kong Dollars. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our exchange differences arising on translation of foreign operations were HK$67.4 million, HK$220.1 million, HK$171.2 million and a loss of HK$5.0 million, respectively.

Release of translation reserve upon disposal of subsidiaries

The amount represents the release of a cumulative translation reserve for CR Precast upon its disposal during the year ended December 31, 2007, amounting to a loss of HK$2.0 million in 2007. Please see note 43 of the Accountants' Report of the Company set forth in Appendix I of this document for more details on the disposal.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Growth of the Construction Industry in China

Our turnover is mainly derived from our sales in China. We sell our products primarily in Guangdong, Guangxi and Fujian. Economic trends in China, particularly in the regions in which we operate, have a significant impact on all aspects of our operations, including, but not limited to, the demand for and pricing of our products, the availability and costs of raw materials, costs of coal and electricity, labor costs and other operating expenses. For the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our average purchase price of coal per ton was HK$424, HK$464, HK$769 and HK$578, respectively. Our average purchase price of coal increased substantially since 2007 mainly due to the increase in the market price of coal in 2008. Our average purchase price of coal reached a peak in September 2008 and started to decrease in October 2008. For the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, our average electricity cost per KWh was HK$0.471, HK$0.461, HK$0.447 and HK$0.459, respectively. Our average monthly labor cost per person was HK$3,431, HK$4,673, HK$4,226 and HK$4,369, respectively, for the same periods. The prices of some of our raw materials have also increased as well. For example, our average purchase price of gypsum per ton during the same period was HK$162, HK$172, HK$185 and HK$171, respectively. Demand for our products is sensitive to the level of construction activity in the markets where we operate. Guangdong, Guangxi and Fujian have experienced significant economic and FAI growth in recent years, which have led to increased demand for construction materials, including cement, clinker and concrete. From 2006 to 2008, the GDP of Guangdong, Guangxi and Fujian grew at a CAGR of 17.2%, 21.9% and 20.1%, respectively, and the FAI of Guangdong, Guangxi and Fujian grew at a CAGR of 17.4%, 29.7% and 30.3%, respectively. For the six months ended June 30, 2009, the GDP of Guangdong, Guangxi and Fujian was RMB1.65 trillion, RMB330 billion and RMB473.9 billion, respectively, representing an increase of 7.1%, 13.0% and 8.5%, respectively, over the same period of 2008. For the six months ended June 30, 2009, the FAI of Guangdong, Guangxi and Fujian increased by 15.5%, 57.7% and 19.8%, respectively, over the same period of 2008. As a result, we believe the growth of the construction industry in China will continue to have a direct impact on our results of operations.

PRC Government Policies

From time to time the PRC Government has implemented, and may in the future implement, new policies in the cement and construction industries, which may affect our business. In the past, the PRC Government has implemented measures to limit growth of the real estate sector. More recently, the PRC Government has introduced measures aimed at moderating the effects of the global economic downturn. Such measures have included a general RMB4 trillion stimulus plan to stimulate the PRC economy and development of infrastructure, tax breaks for home buyers, lower down-payment requirements for home purchases and RMB400 billion to build affordable homes.

During the Track Record Period, our products were used in a number of large scale projects in China, including the Guangzhou-Shenzhen-Hong Kong Express Railway (廣深港高速鐵路架樑), the Guanghe

Expressway (廣賀高速公路), the Guiwu Expressway (桂梧高速公路), the Guangwu Expressway (廣梧高速公路), the Guangzhu Railway (廣珠城際軌道) and the Wuguang Express Railway (武廣高速鐵路). The PRC Government made a commitment in its Eleventh Five-Year Plan to implement major infrastructure and development projects between 2006 and 2010, which we believe will further increase demand for our products. In addition, the PRC Government has recently adopted policies that are designed to accelerate the consolidation of the cement industry, promote modernization and improve energy-efficiency and environmental friendliness. For example, the PRC Government has recently raised quality standards for cement products. We believe that this has led to the closure of a number of vertical kiln facilities, which used old technologies and were not able to comply with new quality standards. In line with these policies, we have built new production lines equipped with NSP technology to capture market demand. Our cash expenditures for acquisition of fixed assets were HK$955.8 million, HK$1,210.2 million, HK$2,585.9 million and HK$2,487.4 million in the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. In addition, we have benefited from government incentive programs which promote more efficient production and the use of environmentally friendly technologies. We received government incentives of HK$44.1 million in 2006, HK$35.1 million in 2007, HK$52.1 million in 2008 and HK$25.0 million in the six months ended June 30, 2009.

Production Capacity

Our results of operations depend on our ability to fulfill customer orders which partly depends on our production capacity. During the Track Record Period, we expanded our cement production capacity from 12.8 million tons in 2006 to 22.5 million tons as at June 30, 2009, our clinker production capacity from 8.0 million tons in 2006 to 15.7 million tons as at June 30, 2009 and our concrete production capacity from 5.2 million cubic meters in 2006 to 12.3 million cubic meters as at June 30, 2009. In connection with our expansion, we have incurred expenditures of HK$1,354.4 million, HK$1,360.5 million, HK$2,628.3 million and HK$2,617.3 million in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. Partly due to the increase in our production capacity, our turnover from continuing operations grew by 77.3% in 2007 and 54.4% in 2008. We believe that demand for our products will continue to increase and we therefore intend to increase our annual production capacity to 30.0 million tons of cement, 21.9 million tons of clinker and 15.9 million cubic meters of concrete by the first quarter of 2010. As a result, we anticipate that we will incur further expansion expenditures, which we intend to finance using cash generated from our operations, bank borrowings and other sources.

Pricing

The following table sets out the breakdown of the unaudited average unit prices of our products for the periods indicated.

	Year ended December 31,					Six months ended June 30,		
Average unit price[(1)]	**2006**	**2007**	**2006–07 change**	**2008**	**2007–08 change**	**2008**	**2009**	**2008–09 change**
	HK$	**HK$**	**%**	**HK$**	**%**	**HK$**	**HK$**	**%**
Cement	197.7	241.4	22.1	282.9	17.2	281.9	258.7	(8.2)
Clinker	165.0	199.9	21.2	246.5	23.3	240.6	204.5	(15.0)
Concrete	268.4	279.4	4.1	308.6	10.5	305.9	298.6	(2.4)

(1) *Unit price is our average ex-factory selling price exclusive of value-added tax.*

Our prices are primarily affected by the supply of, and demand for, cement and concrete in the regions where we operate. The prices of cement vary widely in different regions of China and are highly volatile. For example, the average price (including transportation costs and value-added tax) per ton of Ordinary Portland Cement (PO42.5) in 2008 was RMB390.4, RMB382.9 and RMB323.8, in Fuzhou, Guangzhou and Nanning, respectively. Please see the section headed "Industry Overview — Cement and Concrete Markets in Guangdong, Guangxi and Fujian" for further information. The average unit prices of our cement were HK$197.7, HK$241.4 and HK$282.9 per ton and HK$258.7 per ton in 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. In 2007 and 2008, we increased prices of our cement products because demand grew as a result of increased building and construction activity in the markets where we operate. In addition, we passed on a portion of our increased cost of sales to our customers through higher average selling prices. We decreased the prices of our cement products in the first six months of 2009 due to the decrease in our coal cost.

We review our pricing strategy regularly and make adjustments based on various factors including levels of sales, expected profit margins on individual products, our competitors' prices and expected demand from customers.

Competition

Our sales and results of operations are also affected by competition in the markets where we operate. The PRC cement and concrete industry is highly fragmented and competitive. According to the China Cement Association, there were more than 600 above-scale cement producers in Southern China in 2008. In recent years, the number of competitors has decreased due to intensifying industry consolidation promoted by PRC Government regulations. For example, the "Policies on the Development of the Cement Industry" restrict the use of low-efficiency production equipment and the "Guidelines on Catalog of Structural Adjustment (2005)" restrict the use of vertical kilns, pushing the industry to use more advanced NSP technology. We believe that these regulations have led to the closure of a number of cement producers. We intend to leverage our leading market position and capitalize on the consolidation trend to expand our customer base and increase our market share. However, we expect competition to further intensify principally due to the entry of new foreign companies and the expansion of existing domestic competitors in China and as a result we may be required to reduce our prices in response to our competitors' pricing policies. Our ability to maintain or further increase our profitability will primarily depend on our ability to compete by leveraging our leading market position, brand recognition, product quality and experienced management.

Costs of Coal and Electricity

The results of our operations are significantly affected by the costs of coal and electricity. The cost of coal is one of the principal components of our cost of sales, and as a percentage of turnover was 19.2%, 18.4%, 28.6% and 25.2% for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. We endeavor to improve our production efficiency and reduce our coal costs. However, due to market conditions, we sometimes find it necessary to purchase some types of coal that do not achieve maximum levels of coal consumption efficiency. Unit coal consumption of clinker increased by 9.5% from 148 kg/ton in 2006 to 162 kg/ton in 2007, and further increased 5.6% from 162 kg/ton in 2007 to 171 kg/ton in 2008. The increases from 2006 to 2008 were primarily because the coal we previously used was below our desired efficiency standards. Unit coal consumption of clinker decreased to 160 kg/ton for the six months ended June 30, 2009 because we began purchasing higher quality, more efficient coal after the decrease in coal prices towards the end of 2008. Our average purchase price of coal per ton was HK$424, HK$464, HK$769 and HK$578 in 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. Our cost of sales and results of operations are particularly affected by the price of coal. We generally have contracts with our coal suppliers for one year with the purchase price adjusted by reference to the prevailing market price.

Our operations also require a significant amount of electricity. The cost of electricity as a percentage of turnover decreased from 15.3% in 2006 to 12.7% in 2007. Our electricity costs as a percentage of turnover further decreased to 11.3% in 2008 because we installed a number of residual heat recovery generators which have helped us reduce our energy costs. Our electricity costs as a percentage of turnover were 12.0% for the six months ended June 30, 2009. Our unit consumption of electricity has decreased from 2006 to 2008 primarily due to greater efficiency in our production process as a result of technological upgrades. Our electricity costs increased slightly during the six months ended June 30, 2009 primarily due to the increases of electricity rates in the areas where we operate. Unit electricity consumption decreased by 2.9%, or 2 KWh, from 70 KWh in 2006 to 68 KWh in 2007 and by 1.5%, or 1 KWh, from 68 KWh in 2007 to 67 KWh in 2008 and further to 66 KWh for the six months ended June 30, 2009. For the years ended 2006, 2007, 2008 and the six months ended June 30, 2009, our average electricity cost per KWh was HK$0.471, HK$0.461, HK$0.447 and HK$0.459, respectively.

Cost and Availability of Raw Materials

Our results of operations are also affected by the costs of raw materials which we source from third parties, which primarily comprise of sand, aggregate, gypsum, clay and fly ash. Cost of raw materials as a percentage of turnover was 28.4%, 28.0%, 25.5% and 23.5% in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. If the costs of our raw materials increase, or if we are unable to retain access to a sufficient amount of limestone, our cost of sales may increase.

Our production volumes are also affected by the availability of materials used in our production process. Because clinker is one of the primary raw materials used in producing cement, our ability to produce cement depends on the availability of clinker. Typically, we produce enough clinker to meet our clinker requirements. At times we purchase clinker from outside sources. We produced 5.2 million, 7.9 million, 11.3 million and 6.5 million tons of clinker for internal cement production in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. We spent HK$32.1 million, HK$37.8 million, HK$7.0 million and nil in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively, to purchase clinker from outside sources for use in our production process.

Income Tax Expenses

Our net profit is affected by the tax exemptions, financial subsidies and preferential tax treatment that we enjoy which, if ceased, would adversely affect our profitability and financial condition. The effective tax rates on the continuing operations of our Group were 2.6%, 7.5%, 4.8% and 5.1% in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. Our tax expenses were HK$2.2 million, HK$29.0 million, HK$39.1 million and HK$20.0 million, in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. Our effective tax rates fluctuated during the Track Record Period due to changes in the levels of taxable income combined with certain tax effects resulting from the various tax rates of our subsidiaries. The PRC EIT Law has consolidated the two previous tax regimes which applied to foreign and domestic enterprises in China. The PRC EIT Law imposes a uniform enterprise income tax rate of 25% on both foreign and domestic enterprises. Under the PRC EIT Law, some of our subsidiaries in China were entitled to full exemption from PRC Enterprise Income Tax for the first two profitable years and a 50% reduction for the following three years. Please see note 10 to the Accountants' Report of the Company set forth in Appendix I to this document for further details. In 2006, our tax decreased due to HK$9.0 million of deferred tax liabilities arising from the revaluation of investment property in 2005. In 2007, we recognized a reversal of tax loss of HK$9.7 million. Our effective tax rate in 2008 decreased because a number of our subsidiaries in China enjoyed tax exemptions in 2008. Our effective tax rate was lower during the six months ended June 30, 2008 due to an exchange gain primarily contributed by some of our subsidiaries that were enjoying a tax holiday.

Disposal and Re-acquisition of Our Subsidiaries

Our results of operations are also affected by our disposals of certain subsidiaries. As part of the Reorganization and our effort to focus on China in terms of resource allocation, in 2007 we disposed of CR Precast, the holding company of Redland Precast. Redland Precast was a subsidiary that engaged in the production and sale of precast concrete products. We agreed to sell CR Precast to Smooth Concept for HK$1 in December 2007, and the transaction was completed in the same month. In 2006, Redland Precast incurred a loss of HK$2.5 million, and in 2007 Redland Precast contributed a profit of HK$2.1 million to our Group. As a result of our disposal, we no longer generate turnover from Redland Precast.

In March 2008, we disposed of Redland Concrete, a subsidiary that engages in the production and sale of ready mixed concrete in Hong Kong. We subsequently re-acquired Redland Concrete in December 2008 as part of a strategy to expand our business operations in Hong Kong. The results of operations of Redland Concrete have been included in our statements of comprehensive income during the Track Record Period. Please see the sections headed "History and Reorganization — History and Development" and "Relationship with China Resources Holdings — Redland Concrete" in this document for more details.

RECENT DEVELOPMENTS

Recent Economic Situation

Our operations and financial performance could be materially and adversely affected by conditions in the capital markets and the economy generally, both in China and elsewhere around the world. The pressure experienced by global capital markets that began in the second half of 2007 continued and substantially increased during the third and fourth quarters of 2008. Despite less turmoil in global markets during the first half of 2009 and indications that China will weather the economic difficulties better than most of other economies, the PRC economy may fail to match previous growth levels for the near term. As a result, China's construction industry may be negatively affected. Our turnover may decline in such circumstances and our profit margins may erode as demand for our products is directly related to the level of activity in China's construction industry.

In terms of our financial performance in the recent months, we managed to remain profitable despite the economic downturn primarily due to our ability to retain customers and our continued effort to lower our cost of production. Our turnover for the six months ended June 30, 2009 increased by approximately HK$134.8 million as compared to the same period of 2008. Our net profit margin for the six months ended June 30, 2009 was approximately 13.5% compared to around 20.6% for the same period of 2008. The decrease in net profit margin was primarily due to a lower average selling price of HK$258.7 per ton of cement for the first half of 2009 compared with HK$281.9 per ton for the same period in 2008 due to increased competition in Southern China.

Although the recent economic situation may create less favorable conditions for cement and concrete companies doing business in China, we believe that China still presents opportunities for our products in the long run mainly due to the following:

(i) According to the China Cement Association, cement products produced by applying NSP technology accounted for approximately 62.9% of the 1,400 million tons of cement produced in China in 2008. Together with PRC Government policies to prohibit the use of vertical kilns, we believe the demand for our NSP products will continue to grow.

(ii) As at July 2009, the International Monetary Fund's estimate for China's economic growth was approximately 7.5% for 2009 and 8.5% for 2010, which was higher than its estimate for the global economy of -1.4% for 2009 and 2.5% for 2010. In addition, the expected stabilization of the economy, along with the possible recovery from the global economic downturn during the latter part of 2009, will likely help to improve consumer sentiment and, consequently, sales of our products.

(iii) We may benefit from the PRC Government's policy to develop public infrastructure in the future. In particular, the PRC Government's RMB4 trillion economic stimulus plan may have a positive effect on the growth of the PRC economy and spur investment in public infrastructure and rural development. Many infrastructure projects will require higher grades of cement, and we are among the manufacturers who can generate large quantities of high grade cement.

(iv) The PRC Government has also implemented a number of measures to boost the real estate sector, such as tax breaks for home buyers and lower down-payment requirements for purchases. Other measures have included subsidized housing and RMB400 billion to build affordable homes. For the first six months of 2009, property sales rose 53.0% as compared to corresponding period in 2008, and real estate investment growth was 9.9% for such six-month period. Continued strength in the real estate sector may lead to investment in construction, which would spur demand for cement and concrete.

As a result, we intend to continue to invest in our production facilities in the PRC to achieve our long-term goals. By nature, the cement industry is capital intensive and requires a significant amount of capital for expansion. Due to the slowdown in the global economy, however, we may not be able to grow at a rate comparable to that of the past, either in terms of turnover or net profits. As a result, our business, results of operations, and financial condition could be materially or adversely affected. Please see the section headed "Risk Factors — The current global market fluctuations and economic downturn could materially and adversely affect our business, financial conditions and results of operations".

Acquisition of Hainan Cement

We recently entered into a contract to acquire a 29.3% equity interest in Hainan Cement, a cement producer on Hainan Island, through a public auction. The acquisition remains subject to government approval. We have entered into an agreement to acquire the equity interest in Hainan Cement for consideration of RMB269 million from China Construction Bank, Hainan Branch. As the acquisition of 29.3% equity interest in Hainan Cement has not been completed by June 30, 2009, its assets, liabilities, turnover and expenses will not be accounted for into our financial statements during the six months ended June 30, 2009. We have entered into an agreement to acquire an additional 34.14% of the equity interest in Hainan Cement. Completion of the acquisition of the additional 34.14% is subject to satisfaction of a number of conditions, including among others, approvals from SASAC and MOFCOM. Our acquisition of Hainan Cement is part of our long-term expansion strategy, which we expect will further enhance our leading market position in Southern China. Hainan Cement is principally engaged in the production and sale of cement in the Changjiang Li Autonomous County, Hainan Island. Hainan Cement's operations range from the excavation of limestone to the production, sale and distribution of cement, clinker and concrete.

For the year ended December 31, 2008 and the six months ended June 30, 2009, Hainan Cement had turnover of HK$801.7 million and HK$352.1 million, respectively. During the same periods, its profit was HK$114.6 million and HK$25.4 million, respectively. It currently has two operating clinker production lines with a total annual production capacity of 1.4 million tons of clinker and a concrete plant with an annual production capacity of 600,000 cubic meters of concrete. A third clinker production line is expected to commence construction in the third quarter of 2009, and will increase production capacity of clinker to 3.3 million tons. Please see the section headed "History and Reorganization — After our privatization" of this document for more details. Please see Appendix II — "Accountants' Report of Hainan Cement" to this document for more information on Hainan Cement.

Capital Injection

On August 31, 2009, Smooth Concept injected an additional HK$1 billion into our Company in exchange for 4 billion Shares issued by our Company. We plan to use the new capital to finance our expansion plans in Fujian and Hainan provinces.

New Banking Facilities

We have entered, or intend to enter, into six banking facility agreements with five banks located in Hong Kong in September 2009. The aggregate amount of these banking facilities is approximately HK$2,134 million. Five of the six facility agreements contain change of control provisions, whereby if China Resources Holdings were to cease to be our single largest shareholder, it would trigger an event of default. If an event of default under these bank facilities were to occur, these banks would have the right to cancel their commitments under these bank facility agreements and declare all outstanding amounts, together with accrued and unpaid interest, to be immediately due and payable.

SELECTED ITEMS FOR STATEMENTS OF COMPREHENSIVE INCOME

Continuing Operations

Turnover

Our turnover from continuing operations consists of the sale of our cement, clinker and concrete products. Our cement products include both high grade and low grade cement, and other cement products. Our turnover from continuing operations was HK$2,111.7 million, HK$3,743.2 million, HK$5,781.3 million and HK$2,738.7 million for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively.

The table below sets forth a breakdown of our turnover from continuing operations by products and each item expressed as a percentage of turnover for the periods indicated.

	Years ended December 31,						Six months ended June 30,			
	2006		2007		2008		2008		2009	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000 (unaudited)	%	HK$'000	%
Cement	1,110,480	52.6	2,180,921	58.3	3,735,796	64.6	1,593,136	61.2	1,784,777	65.2
Clinker	208,850	9.9	247,060	6.6	332,293	5.7	163,938	6.3	220,372	8.0
Concrete	792,365	37.5	1,315,174	35.1	1,713,189	29.7	846,888	32.5	733,590	26.8
Total	2,111,695	100.0	3,743,155	100.0	5,781,278	100.0	2,603,962	100.0	2,738,739	100.0

Our turnover from continuing operations in any given period is affected by our sales volume and selling prices. During the Track Record Period, the sales volumes of our products experienced significant increases. For example, sales volume of our cement products was 5.6 million tons, 9.0 million tons, 13.2 million tons and 6.9 million tons in 2006, 2007, 2008 and for the six months ended June 30, 2009, respectively. The increases in our sales volume were mainly driven by intensifying construction activity in the PRC. In order to capitalize on the rapidly increasing demand for construction materials in the PRC, we have significantly expanded our production capacity.

During the Track Record Period, our average unit price fluctuated primarily due to changes in the supply of, and demand for, our products. For example, the average unit prices of our cement products were HK$197.7, HK$241.4, HK$282.9 and HK$258.7 in 2006, 2007, 2008 and for the six months ended June 30, 2009, respectively. Please see the section headed "Significant Factors Affecting our Results of Operations — Pricing." Our management will continue to evaluate the market demand for our products and may from time to time adjust our product prices and production capacity to meet market demand.

Gross Profit and Gross Profit Margin

Our gross profit is our turnover derived from our continuing operations less cost of sales. Gross profit margin is our gross profit divided by turnover from continuing operations. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total gross profit was HK$487.2 million, HK$1,081.1 million, HK$1,319.2 million and HK$733.5 million, respectively, and our overall gross profit margin was 23.1%, 28.9%, 22.8% and 26.8%, respectively.

Gross Profit

The table below sets forth a breakdown of our gross profit by product for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Cement	203,395	663,361	857,880	491,265	512,345
Clinker	39,660	53,864	41,971	21,859	38,868
Concrete	244,120	363,887	419,359	201,005	182,294
Total	487,175	1,081,112	1,319,210	714,129	733,507

Gross Profit Margin

The table below sets forth a breakdown of our gross profit margin by product for the periods indicated.

	Year ended December 31,			Six Months ended June 30,	
	2006	2007	2008	2008	2009
	%	%	%	(unaudited) %	%
Cement	18.3	30.4	23.0	30.8	28.7
Clinker	19.0	21.8	12.6	13.3	17.6
Concrete	30.8	27.7	24.5	23.7	24.8
Overall Gross Profit Margin	23.1	28.9	22.8	27.4	26.8

Cost of Sales

Our cost of sales was HK$1,624.5 million, HK$2,662.0 million, HK$4,462.1 million and HK$2,005.2 million for 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. Our cost of sales comprises coal and electricity, raw materials, depreciation and labor and other costs. Our coal costs as a percentage of turnover were 19.2%, 18.4%, 28.6% and 25.2% in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. Our electricity costs as a percentage of turnover were 15.3%, 12.7%, 11.3% and 12.0% in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. Costs of raw materials primarily comprise costs of sand, aggregate, gypsum, clay and fly ash, and to a lesser extent ingredients used in the production of cement such as clinker. As a percentage of turnover, costs of raw materials were 28.4%, 28.0%, 25.5% and 23.5% during those same periods. We anticipate that our energy and raw material costs will continue to account for a substantial portion of our cost of sales.

The table below sets forth breakdowns of our cost of sales and each item is expressed as a percentage of turnover from continuing operations for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	2006	% of turnover	2007	% of turnover	2008	% of turnover	2008	% of turnover	2009	% of turnover
	HK$'000		HK$'000		HK$'000		HK$'000 (unaudited)		HK$'000	
Coal	404,587	19.2	687,193	18.4	1,655,520	28.6	608,084	23.4	690,624	25.2
Electricity	322,522	15.3	474,186	12.7	651,007	11.3	289,656	11.1	327,293	12.0
Raw Materials	600,583	28.4	1,049,700	28.0	1,476,591	25.5	686,396	26.4	642,589	23.5
Depreciation	137,716	6.5	197,683	5.3	264,485	4.6	123,048	4.7	134,555	4.9
Labor and Other Costs	159,112	7.5	253,281	6.7	414,465	7.2	182,649	7.0	210,171	7.6
Total	1,624,520	76.9	2,662,043	71.1	4,462,068	77.2	1,889,833	72.6	2,005,232	73.2

Other Income

Other income from our continuing operations primarily includes government incentives, exchange gain, service income, interest income, sales of scrap materials and others. Our government incentives mainly included (i) development funds in relation to the construction of environmentally friendly production facilities through the use of residual heat power ("Development Funds"); (ii) local government subsidies in relation to our establishment of cement operations in certain areas and (iii) incentives received by some of our subsidiaries for their improvements in suspension preheater and decomposition technology. The grant of the Development Funds and the incentives received by some of our subsidiaries for their improvements in suspension preheater and decomposition technology are subject to the discretion of the relevant government authorities. We received the Development Funds during the Track Record Period. The subsidies granted by the local governments in relation to our establishment of cement operations in certain areas are based on the amount of sales made by our relevant subsidiaries and accordingly they are recurring in nature. Please refer to note 50 to the Accountants' Report of our Company set forth in Appendix I to this document for more information on government incentives. Our exchange gain arises from amounts due to the immediate holding company, and it is related to the appreciation of the Renminbi against the Hong Kong Dollar during the Track Record Period. According to the Hong Kong Accounting Standard 21, monetary items denominated in foreign currencies should be retranslated at the exchange rates prevailing on the dates of the consolidated statements of financial position. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized as a profit or loss in the year/period in which they arise. In 2008, we recognized an exchange gain of HK$183.6 million as we required fewer Renminbi to repay our bank borrowings and amounts due to our immediate holding company that we originally borrowed in Hong Kong Dollar. Up to December 2007, our management considered the Hong Kong Dollar to be our functional currency. In December 2007, we entered into agreements to dispose of our entire equity interests in certain subsidiaries with principal operations in Hong Kong. As a result of such disposals, our Directors were of the view that our functional currency of our Company has changed to the Renminbi since the majority of our operated assets and liabilities were located inside China. Despite the fact that we re-acquired Redland Concrete due to improved outlook of the construction industry in Hong Kong, Redland Concrete does not constitute a majority portion of our business and the majority of our assets and liabilities remain in China. Our Directors are of the view that we will not re-adopt the Hong Kong Dollar as our functional currency following the re-acquisition of Redland Concrete. Our service income relates to provision of sales information. Our interest income relates to interests paid by banks on our deposits. We also generate income from sales of scrap materials, including steel and iron from consumable production materials and from compensation that we received from our insurance. Others include bonuses given by China Resources Holdings, provision for product liabilities and gain on physical count on current asset. The HK$8.5 million received as rental income in 2008 stemmed from rent received on our Qinzhou pier and Chaiwan plant. Our total other income was HK$85.8 million, HK$69.2 million, HK$265.5 million and HK$40.8 million for 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. The table below sets forth a breakdown of our other income for the periods indicated.

	Years ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Government incentives	44,141	35,147	52,086	22,727	25,027
Exchange gain	18,771	15,480	183,619	182,524	—
Service income	3,913	6,976	2,165	1,969	—
Interest income	7,969	6,606	5,643	2,828	1,474
Sales of scrap materials	3,057	2,378	4,466	2,299	2,788
Compensation received from insurance	1,813	—	1,838	—	1,988
Rental Income	—	—	8,513	3,927	4,976
Others	6,112	2,636	7,169	3,809	4,532
	85,776	69,223	265,499	220,083	40,785

Selling and Distribution Expenses

Our selling and distribution expenses primarily include transportation expenses, staff costs, depreciation and other expenses. Our selling and distribution expenses were HK$166.9 million, HK$271.0 million, HK$346.7 million and HK$147.3 million in 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. As a percentage of turnover, our selling and distribution expenses were 7.9% in 2006, 7.2% in 2007, 6.0% in 2008 and 5.4% for the six months ended June 30, 2009. As we expand our operations, we expect to strengthen our sales efforts and our selling and distribution expenses may increase accordingly. The table below sets forth a breakdown of our selling and distribution expenses for the periods indicated.

	Years ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Transportation	104,250	182,964	220,826	102,010	78,921
Staff costs	29,094	40,524	58,328	26,427	31,013
Depreciation	12,988	16,661	26,032	12,321	15,104
Others	20,548	30,876	41,470	17,206	22,251
	166,880	271,025	346,656	157,964	147,289

General and Administrative Expenses

Our general and administrative expenses include staff costs, allowance for doubtful debts, impairment loss on other receivables, depreciation and amortization expenses, government levies and others. Other costs mainly include pre-operating expenses, rent, office expenses, automobile expenses, professional fees, traveling and entertainment, loss on disposal of fixed assets, impairment of fixed assets and other miscellaneous expenses relating to general and administration. Our general and administrative expenses were HK$221.2 million, HK$346.4 million, HK$345.4 million and HK$173.4 million in 2006, 2007, 2008 and for the six months ended June 30, 2009, respectively. Our general and administrative expenses as a percentage of turnover decreased from 10.5% in 2006 to 9.3% in 2007 and to 6.0% in 2008. Our general and administrative expenses as a percentage of turnover were 6.3% for the six months ended June 30, 2009. The table below sets forth a breakdown of our general and administrative expenses for the periods indicated.

	Years ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Staff costs	81,919	136,476	132,979	61,811	91,620
Allowance for doubtful debts	21,834	48,416	(22,863)	(6,724)	(17,769)
Impairment loss on other receivables	—	—	12,329	12,146	—
Depreciation and amortization	26,556	29,939	38,152	17,077	19,160
Government levies	8,242	21,205	47,151	18,796	18,651
Others	82,691	110,359	137,603	52,470	61,779
	221,242	346,395	345,351	155,576	173,441

Finance Costs

Finance costs primarily include interest on bank loans, borrowings from our immediate holding company (Smooth Concept). We also recognized imputed interest on our convertible bonds in 2006. Our finance costs were HK$100.1 million, HK$148.2 million, HK$123.6 million and HK$85.4 million for 2006, 2007, 2008 and the six months ended June 30, 2009, respectively.

Profit before Taxation

Our profit before taxation included profits derived from our income from Hong Kong and China. Our total profit before taxation was HK$84.8 million, HK$387.8 million, HK822.8 million and HK$389.6 million for 2006, 2007, 2008 and the six months ended June 30, 2009, respectively.

Profit (loss) for the year from Discontinued Operations

In order to focus our resources on our cement and concrete businesses, we disposed of our entire equity interest in CR Precast, our precast concrete manufacturing subsidiary, in December 2007. The results of operations of CR Precast have been included in our consolidated statements of comprehensive income during the Track Record Period as a separate line item entitled "(Loss) profit for the year from Discontinued Operations". In 2006, CR Precast incurred a loss of HK$2.5 million. In 2007, CR Precast had a profit of HK$2.1 million.

TAXATION

Our income tax expenses primarily include tax that we pay in China and in Hong Kong and deferred taxation. In China, our income tax expenses include PRC enterprise income tax. In Hong Kong, our income tax expenses include Hong Kong profits tax. Our income tax expenses were HK$2.2 million, HK$29.0 million, HK$39.1 million and HK$20.0 million for, 2006, 2007, 2008 and for the six months ended June 30, 2009, respectively. The effective tax rates of the continuing operations of our Group were 2.6%, 7.5%, 4.8% and 5.1% in 2006, 2007, 2008 and for the six months ended June 30, 2009, respectively. Our taxation expenses paid during the Track Record Period included our taxation expenses for both continuing and discontinued operations. Please see note 10 to the Accountants' Report of the Company set forth in Appendix I to this document for more information.

PRC Enterprise Income Tax

The PRC EIT Law imposes a unified enterprise income tax rate of 25% on both domestic enterprises and foreign-invested enterprises. Under the PRC EIT Law, enterprises that enjoyed a preferential tax rate prior to January 1, 2008 will gradually transition to the new tax rate over five years from January 1, 2008. Enterprises that previously enjoyed a fixed period of tax exemption and reduction will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to an absence of profit, such preferential tax treatment commences from January 1, 2008.

If the relevant government authorities classify our overseas holding companies as resident enterprises, these holding companies will be subject to a 25% tax rate on their global income. However, their dividend income from other qualified resident enterprises, including dividends payable by our PRC subsidiaries, will be exempt from PRC enterprise income tax. If the relevant government authorities classify our overseas holding companies as non-resident enterprises, their dividend income from sources within China will be subject to a 10% enterprise income tax rate, as applicable. Our financial performance will be adversely affected if such dividends are subject to PRC enterprise income tax.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, turnover, expenses and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our management has discussed the development, selection and disclosure of these estimates with our board of directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially affect our consolidated financial statements. We believe that the following critical accounting policies are the most sensitive and are those that require the most significant estimates and assumptions used in the preparation of our consolidated financial statements. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures in this document.

Fixed Assets

Construction in progress

We carry our fixed assets that are in the course of construction for production, rent or administrative purposes or for purposes not yet determined at cost less accumulated impairment losses, if any. Cost includes all construction expenditures, professional fees, borrowing cost capitalized and other relevant expenses directly attributable to such projects. We make no provision for depreciation on construction in progress until the construction work is completed and the costs of construction are transferred to the fixed assets.

Other fixed assets

We state other fixed assets at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation of other fixed assets is provided to write off the cost of these assets over their estimated useful lives using the straight-line method and after taking into account their estimated residual values. The estimated useful lives are as follows:

Land and buildings	Over the unexpired term of lease
Plant and machinery	3 to 40 years
Logistic equipment	10 to 40 years
Others	3 to 35 years

We derecognize a fixed asset upon its disposal or when we do not expect future economic benefits to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the consolidated statements of comprehensive income in the year in which the item is derecognized.

Our total fixed assets at the end of each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 were HK$4,077.3 million, HK$5,422.1 million, HK$8,124.3 million and HK$10,546.4 million, respectively.

Mining Rights

Mining rights acquired separately and with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses. We amortize mining rights with finite useful lives on a straight-line basis over their estimated useful lives.

We measure gain or loss arising from derecognition of mining rights at the difference between the net disposal proceed and its carrying amount and is recognized in the consolidated statements of comprehensive income when it is derecognized.

The carrying values of our mining rights at the end of each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 were HK$56.3 million, HK$60.4 million, HK$75.0 million and HK$73.7 million, respectively.

Impairment (other than goodwill)

At the end of each reporting period, we review the carrying amounts of the tangible and intangible assets to determine whether there is any indication that those assets have incurred an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense.

Where an impairment loss subsequently reverses, we increase the carrying amount of the asset to the revised estimate of its recoverable amount but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is recognized as income immediately.

Estimated Impairment of Trade Receivables

Where there is objective evidence of impairment losses, we take into consideration the estimation of future cash flows. The amount of impairment loss is measured by the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). As at December 31, 2006, 2007, 2008 and June 30, 2009, the carrying amounts of trade receivables were HK$558.0 million (net of allowance for doubtful debts of HK$40.5 million), HK$649.3 million (net of allowance for doubtful debts of HK$92.4 million), HK$638.2 million (net of allowance for doubtful debts of HK$72.2 million) and HK$625.2 million (net of allowance for doubtful debts of HK$53.3 million), respectively. Please see note 27 to the Accountants' Report of the Company set forth in Appendix I to this document for more information.

Goodwill

Goodwill arising on acquisitions prior to January 1, 2005

Goodwill arising on an acquisition of net assets and operations of another entity represents the excess of the cost of acquisition over our interest in the fair value of the identifiable assets and liabilities as at the date of acquisition.

For previously capitalized goodwill arising on acquisitions prior to January 1, 2005, we have discontinued amortization from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whether there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after January 1, 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after January 1, 2005 represents the excess of the cost of acquisition over our interest in fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. We carry such goodwill at cost less any accumulated impairment loss.

Impairment testing on capitalized goodwill

For the purpose of impairment testing, we allocate goodwill arising from acquisition to each of our cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment at the end of the reporting period and whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On subsequent disposal of subsidiaries, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

During the Track Record Period, the carrying value of our goodwill as at the end of each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 amounted to HK$45.1 million, HK$53.3 million, HK$62.8 million and HK$62.8 million, respectively.

Estimated Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires us to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2006, 2007, 2008 and June 30, 2009, the carrying amounts of goodwill were HK$45.1 million, HK$53.3 million, HK$62.8 million (net of accumulated impairment loss of HK$1.3 million) and HK$62.8 million, respectively. Please see note 20 to the Accountants' Report of the Company set forth in Appendix I to this document for more information.

Inventories

Our inventories primarily consist of: (i) raw materials and consumables; (ii) work in progress; and (iii) finished goods. We state our inventories at the lower of cost and net realizable value. Cost is calculated using the weighted average cost method. Our inventories as at the end of each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 were HK$333.9 million, HK$362.5 million, HK$379.8 million and HK$528.0 million, respectively.

Assets Held for Sale

We classify assets and disposed groups as assets held for sale if we will recover their carrying amount principally through a sale transaction rather than through continuing use. We regard this condition as met when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Assets held for sale are measured at the lower of the previous carrying amount and fair value less costs to sell. Our assets classified as held for sale at the end of each of the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 were nil, nil, HK$157.1 million and nil, respectively. On December 2, 2008, we entered into an agreement to dispose of the entire equity interest in Hongshuihe Pier Store for RMB138.0 million. The assets and liabilities attributable to Hongshuihe Pier Store, which we expect to sell within the next twelve months, have been classified as held for sale, and are presented separately in the consolidated statements of financial position as at December 31, 2008.

Deferred Tax Assets

The realizability of deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a reversal of deferred tax assets would be recognized in the consolidated statements of comprehensive income for the year/period in which such a reversal takes place. As at December 31, 2006, 2007, 2008 and June 30, 2009, the carrying amounts of deferred tax assets were HK$24.1 million, HK$8.8 million, HK$9.6 million and HK$9.9 million, respectively.

RESULTS OF OPERATIONS

The following table sets forth our results of operations for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Continuing operations					
Turnover	2,111,695	3,743,155	5,781,278	2,603,962	2,738,739
Cost of sales	(1,624,520)	(2,662,043)	(4,462,068)	(1,889,833)	(2,005,232)
Gross profit	487,175	1,081,112	1,319,210	714,129	733,507
Selling and distribution expenses	(166,880)	(271,025)	(346,656)	(157,964)	(147,289)
General and administrative expenses	(221,242)	(346,395)	(345,351)	(155,576)	(173,441)
Finance costs	(100,066)	(148,215)	(123,592)	(61,543)	(85,369)
Others:					
Other income	85,776	69,223	265,499	220,083	40,785
Gain on disposal of subsidiaries	—	391	—	—	22,399
Change in fair value of investment properties	—	—	55,040	—	(1,000)
Discount on acquisition of a subsidiary	—	2,679	—	—	—
Impairment loss recognized in respect of goodwill	—	—	(1,301)	(1,301)	—
Share of result of an associate	(6)	(5)	(1)	(1)	—
Profit before taxation	84,757	387,765	822,848	557,827	389,592
Taxation	(2,205)	(28,951)	(39,101)	(21,220)	(19,986)
Profit for the year/period from continuing operations	82,552	358,814	783,747	536,607	369,606
Discontinued operations					
(Loss) profit for the year/period from discontinued operations	(2,502)	2,113	—	—	—
Profit for the year/period	80,050	360,927	783,747	536,607	369,606
Basic earnings per share	14.6 cents	46.1 cents	97.3 cents	67.8 cents	46.8 cents
Diluted earnings per share	14.3 cents	N/A	N/A	N/A	N/A

Six months ended June 30, 2009 compared to the six months ended June 30, 2008 – Continuing Operations

Turnover

Our turnover increased by 5.2%, from HK$2,604.0 million for the six months ended June 30, 2008 to HK$2,738.7 million for the six months ended June 30, 2009. The increase in turnover was mainly due to increased sales volume of our cement and clinker. The turnover derived from sales of our cement, clinker and concrete accounted for 65.2%, 8.0% and 26.8% of our turnover for the six months ended June 30, 2009, respectively.

Cement. Turnover derived from sales of our cement products increased by 12.0%, from HK$1,593.1 million for the six months ended June 30, 2008 to HK$1,784.8 million for the six months ended June 30, 2009. This increase was primarily due to increased production capacity and sales volume, partially offset by decreased average unit price. The increase in production capacity was primarily due to the commencement of three production lines during the first six months of 2009. The volume of cement sold increased by 21.1%, from 5.7 million tons for the six months ended June 30, 2008 to 6.9 million tons for the six months ended June 30, 2009.

This increase was primarily driven by the continuing increase in demand for our cement products in the areas where we operate, especially Guangxi, and our competitive pricing. The average unit price of our cement decreased by 8.2%, from HK$281.9 per ton for the six months ended June 30, 2008 to HK$258.7 per ton for the six months ended June 30, 2009, mainly due to the decrease in our cost of coal.

Clinker. Turnover derived from sales of our clinker increased by 34.5% from HK$163.9 million for the six months ended June 30, 2008 to HK$220.4 million for the six months ended June 30, 2009. The increase in our turnover derived from sales of clinker was primarily due to an increase in sales volume, partially offset by a decrease in the average unit price. The total volume of clinker sold increased by 57.1%, from 0.7 million tons for the six months ended June 30, 2008 to 1.1 million tons for the six months ended June 30, 2009. The average unit price of our clinker decreased by 15.0%, from HK$240.6 per ton for the six months ended June 30, 2008 to HK$204.5 per ton for the six months ended June 30, 2009. This decrease in the average unit price reflects primarily the decrease in our cost of coal.

Concrete. Turnover derived from sales of our concrete decreased by 13.4%, from HK$846.9 million for the six months ended June 30, 2008 to HK$733.6 million for the six months ended June 30, 2009. The decrease in our turnover derived from sales of concrete was primarily due to (i) the decrease in volume of concrete sold in both Guangdong and Guangxi and (ii) the decrease in the average unit price in concrete. The total volume of concrete sold decreased by 10.7%, from 2.8 million cubic meters for the six months ended June 30, 2008 to 2.5 million cubic meters for the six months ended June 30, 2009. Specifically, the total volume of concrete sold in Guangdong and Guangxi decreased by 16.0 %, from 2.5 million cubic meters for the six months ended June 30, 2008 to 2.1 million cubic meters for the six months ended June 30, 2009. This decrease was mainly attributable to (i) the softening of the real estate sector in Guangdong and Guangxi as a result of the global financial economic crisis and (ii) we adopted a more conservative approach in selecting our customers to minimize our risk exposure. The decrease in the amount of concrete sold in Guangdong and Guangxi was partially offset by the increase in total amount of concrete sold in Hong Kong and Fujian during the same period. The average unit price of our concrete decreased by 2.4%, from HK$305.9 per cubic meter for the six months ended June 30, 2008 to HK$298.6 per cubic meter for the six months ended June 30, 2009. This decrease in price was primarily due to the decrease in the cost of cement.

Cost of Sales

Our cost of sales increased by 6.1%, from HK$1,889.8 million for the six months ended June 30, 2008 to HK$2,005.2 million for the six months ended June 30, 2009, mainly as a result of increased sales. As a percentage of turnover, our total cost of sales remained relatively stable at 72.6% for the six months ended June 30, 2008 and 73.2% for the six months ended June 30, 2009. The average purchase price of our coal decreased by 9.0% from HK$635 per ton for the six months ended June 30, 2008 to HK$578 per ton for the six months ended June 30, 2009. We used coal mainly in our cement and clinker production processes. Our coal cost as a percentage of total cement and clinker turnover remained relatively stable at 34.6% and 34.4% for the six months ended June 30, 2008 and June 30, 2009. As a percentage of turnover, our electricity cost increased from 11.1% for the six months ended June 30, 2008 to 12.0% for the six months ended June 30, 2009, primarily due to the increase in electricity rates during the latter part of 2008. As a percentage of turnover, our raw materials costs decreased from 26.4% for the six months ended June 30, 2008 to 23.5% for the six months ended June 30, 2009, primarily due to more cost-effective use of raw materials in our production processes.

Gross Profit

As a result of the factors described above, gross profit increased by 2.7%, from HK$714.1 million for the six months ended June 30, 2008 to HK$733.5 million for the six months ended June 30, 2009. Gross profit margin decreased from 27.4% for the six months ended June 30, 2008 to 26.8% for the six months ended June 30, 2009.

Cement. Gross profit for cement increased from HK$491.3 million for the six months ended June 30, 2008 to HK$512.3 million for the six months ended June 30, 2009, mainly due to the increase in turnover of 12.0% over the same period. Gross profit margin for cement decreased from 30.8% to 28.7% during the same period. This decrease was primarily due to the decrease in our average unit price of cement.

Clinker. Gross profit for clinker increased from HK$21.9 million for the six months ended June 30, 2008 to HK$38.9 million for the six months ended June 30, 2009, mainly due to the increase in turnover of 34.5% over the same period. Gross profit margin for clinker increased from 13.3% to 17.6% during the same period. This increase was primarily due to the higher rate of the reduction in cost of production of clinker compared to the rate of reduction in the average unit prices.

Concrete. Gross profit for concrete decreased from HK$201.0 million for the six months ended June 30, 2008 to HK$182.3 million for the six months ended June 30, 2009, mainly due to the decrease in turnover of 13.4% over the same period. Gross profit margin for concrete increased from 23.7% to 24.8% during the same period. This increase was primarily due to the decrease in the cost of cement.

Other Income

Other income primarily includes government incentives, service income, interest income and compensation from insurance. Other income decreased by 81.5%, from HK$220.1 million for the six months ended June 30, 2008 to HK$40.8 million for the six months ended June 30, 2009. Other income as a percentage of turnover decreased from 8.5% for the six months ended June 30, 2008 to 1.5% for the six months ended June 30, 2009, primarily reflecting the absence of any exchange gain for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008. Due to the appreciation of Renminbi against Hong Kong Dollar in 2008, we recognized an exchange gain of HK$182.5 million in the first six months of 2008 when we repaid our borrowings that we originally borrowed in Hong Kong Dollar.

Selling and Distribution Expenses

Our selling and distribution expenses mainly consist of transportation expenses, staff costs and depreciation. Our selling and distribution expenses decreased by 6.8% from HK$158.0 million for the six months ended June 30, 2008 to HK$147.3 million for the six months ended June 30, 2009. Our selling and distribution expenses as a percentage of turnover decreased from 6.1% for the six months ended June 30, 2008 to 5.4% for the six months ended June 30, 2009, mainly due to the decrease in transportation expenses.

Transportation expenses decreased by 22.6%, from HK$102.0 million for the six months ended June 30, 2008 to HK$78.9 million for the six months ended June 30, 2009, primarily because we rented fewer concrete mixer truckers to deliver our concrete products because of decreased concrete sales in Guangdong and Guangxi. Staff costs increased by 17.4% from HK$26.4 million for the six months ended June 30, 2008 to HK$31.0 million for the six months ended June 30, 2009, primarily due to an increase in the number of staff and an increase in general wages and benefits. Depreciation increased by 22.8% from HK$12.3 million for the six months ended June 30, 2008 to HK$15.1 for the six months ended June 30, 2009, mainly due to an increase in the number of concrete mixer trucks and other equipment.

General and Administrative Expenses

Our general and administrative expenses increased by 11.4%, from HK$155.6 million for the six months ended June 30, 2008 to HK$173.4 million for the six months ended June 30, 2009. As a percentage of turnover, our general and administrative expenses remained relatively stable at 6.0% for the six months ended June 30, 2008 and at 6.3% for the six months ended June 30, 2009. Administrative staff costs and benefits increased by 48.2%, from HK$61.8 million for the six months ended June 30, 2008 to HK$91.6 million for the six months ended June 30, 2009, primarily due to the increase in our scale of operation. We had a net recovery of doubtful debts of HK$6.7 million for the six months ended June 30, 2008 whereas the net recovery of doubtful debts of HK$17.8 million for the six months ended June 30, 2009. Our impairment loss on other receivables was HK$12.1 million and nil for the six months ended June 30, 2008 and June 30, 2009, respectively.

Finance Costs

Finance costs increased by 38.9% from HK$61.5 million for the six months ended June 30, 2008 to HK$85.4 million for the six months ended June 30, 2009, primarily due to an increase in the average balance of our bank loans. The increase in bank loans was partially offset by a reduction in general interest rates.

Profit before Taxation

For the aforementioned reasons, our profit before taxation for the period decreased by 30.2%, from HK$557.8 million for the six months ended June 30, 2008 to HK$389.6 million for the six months ended June 30, 2009.

Taxation

Our income tax expense decreased by 5.7%, from HK$21.2 million for the six months ended June 30, 2008 to HK$20.0 million for the six months ended June 30, 2009. Our effective tax rate was 3.8% for the six months ended June 30, 2008 and 5.1% for the six months ended June 30, 2009. Our effective tax rate was lower for the first six months ended June 30, 2008 due to an exchange gain of HK$182.5 million primarily contributed by some of our subsidiaries which were enjoying a tax holiday. Excluding this exchange gain, our effective tax rate for the six months ended June 30, 2008 was 5.7% as compared to the 5.1% for the six months ended June 30, 2009.

Profit for the Period

For the aforementioned reasons, our profit for the period from continuing operations decreased by 31.1%, from HK$536.6 million for the six months ended June 30, 2008 to HK$369.6 million for the six months ended June 30, 2009.

Year ended December 31, 2008 compared to the year ended December 31, 2007 – Continuing Operations

Turnover

Our turnover increased by 54.4%, from HK$3,743.2 million for the year ended December 31, 2007 to HK$5,781.3 million for the year ended December 31, 2008. The increase in turnover was mainly due to an increase in sales volume of our products and an increase in the average unit price of our products. The increase in sales volume was mainly due to the commencement of operations of new production lines. The increase in price resulted mainly from increased demand for our products in Southern China due to the continued growth in the economies and FAI in the markets in which we operate. In addition, we increased our average unit price as part of our effort to transfer the incremental cost increases in our cost of sales to our customers. The turnover derived from sales of our cement, clinker and concrete accounted for 64.6%, 5.7% and 29.7% of our turnover for 2008, respectively.

Cement. Turnover derived from sales of our cement products increased by 71.3% from HK$2,180.9 million for 2007 to HK$3,735.8 million for 2008. The increase in turnover was primarily due to the increase in our production output and the increase in the average unit price of our cement. The total volume of cement sold increased by 46.7% from 9.0 million tons for 2007 to 13.2 million tons for 2008. The increase in our production output was due to the commencement of two new production lines in October 2007 and January 2008. From 2007 to 2008, our cement sales experienced an increase in average unit prices of 17.2%, from HK$241.4 per ton in 2007 to HK$282.9 per ton in 2008.

Clinker. Turnover derived from sales of clinker increased by 34.5%, from HK$247.1 million for 2007 to HK$332.3 million for 2008. The increase in turnover was primarily due to the increase in our sales volume and the increase in the average unit price of our clinker. The total volume of clinker sold increased by 8.3% from 1.2 million tons for 2007 to 1.3 million tons for 2008. The average unit price of our clinker increased by 23.3%, from HK$199.9 per ton in 2007 to HK$246.5 in 2008. The increase in price was mainly due to continuous demand for our clinker and our ability to pass on our incremental cost increases to our customers.

Concrete. Turnover derived from sales of our concrete increased by 30.3% from HK$1,315.2 million in 2007 to HK$1,713.2 million in 2008. The sales volume of concrete increased by 19.1%, from 4.7 million cubic meters in 2007 to 5.6 million cubic meters in 2008. The increase primarily reflected our additional production capacity and increased demand for our concrete. Our production capacity increased due to the commencement of operations of seven new concrete batching plants in late 2007 and 2008. The unit price of our concrete increased by 10.5%, from HK$279.4 per cubic meter in 2007 to HK$308.6 per cubic meter in 2008. This increase was primarily attributable to our effort to pass our incremental cost increase to our customers.

Cost of sales

Our cost of sales increased by 67.6%, from HK$2,662.0 million in 2007 to HK$4,462.1 million in 2008, mainly as a result of increased sales as well as increased production costs. As a percentage of turnover, our total cost of sales increased from 71.1% in 2007 to 77.2% in 2008, mainly because the average unit price of our products increased at a lower rate than our cost of coal. The average purchase price of our coal per ton increased from HK$464 per ton in 2007 to HK$769 per ton in 2008. As a result, our cost of coal as a percentage of turnover derived from sales of cement and clinker increased from 28.3% in 2007 to 40.7% in 2008. As a percentage of turnover, our cost of electricity decreased from 12.7% in 2007 to 11.3% in 2008 primarily due to electricity cost savings achieved through residual heat recovery generators and significant increase in our turnover.

Gross profit

As a result of the factors described above, our gross profit increased by 22.0%, from HK$1,081.1 million in 2007 to HK$1,319.2 million in 2008. Gross profit margin decreased from 28.9% in 2007 to 22.8% in 2008.

Cement. Gross profit for cement increased from HK$663.4 million in 2007 to HK$857.9 million in 2008 mainly due to the increase in turnover of 71.3% during the same period. Gross profit margin for cement decreased from 30.4% in 2007 to 23.0% in 2008 mainly due to the increase in cost of sales associated with the significant increase in the cost of coal.

Clinker. Gross profit for clinker decreased from HK$53.9 million in 2007 to HK$42.0 million in 2008 despite the increase in turnover of 34.5% during the same period. Gross profit margin for clinker decreased from 21.8% in 2007 to 12.6% in 2008 mainly due to the increase in cost of sales associated with the significant increase in the cost of coal.

Concrete. Gross profit for concrete increased from HK$363.9 million in 2007 to HK$419.4 million in 2008 mainly due to the increase in turnover of 30.3% during the same period. Gross profit margin for concrete decreased from 27.7% in 2007 to 24.5% in 2008 mainly due to the increased cost of cement flowing from the increased cost of coal.

Other Income

Other income primarily includes interest income, government incentives, service income and currency exchange gains. Our other income increased by 283.7% from HK$69.2 million in 2007 to HK$265.5 million in 2008. Other income as a percentage of turnover increased from 1.8% in 2007 to 4.6% in 2008, primarily reflecting (i) the appreciation of the Renminbi against the Hong Kong Dollar and an exchange gain of HK$183.6

million in 2008 derived from our loans that we originally borrowed in Hong Kong Dollar and (ii) the increase of HK$16.9 million of government incentives as a result of our continuous effort to use more efficient production and environmentally friendly technologies.

Selling and Distribution Expenses

Our selling and distribution expenses mainly consist of transportation expenses, staff costs and depreciation. Our selling and distribution expenses increased by 27.9%, from HK$271.0 million in 2007 to HK$346.7 million in 2008. This increase was largely due to the increase in the sales of our product for the period. Our selling and distribution expenses as a percentage of turnover decreased from 7.2% in 2007 to 6.0% in 2008. This decrease was mainly due to the further increase in our economies of scale, which allowed our staff costs and transportation costs to increase at a slower rate than the increase in our turnover.

Transportation costs increased by 20.7%, from HK$183.0 million in 2007 to HK$220.8 million in 2008 primarily because of increased sales volume of our products. Total staff costs increased by 44.0%, from HK$40.5 million in 2007 to HK$58.3 million in 2008 because of an increase in the number of our sales staff and a general increase in average wages, partly due to the introduction of the new PRC Labor Law in 2008. Depreciation increased by 55.7%, from HK$16.7 million in 2007 to HK$26.0 million in 2008 mainly due to an increase in the number of our concrete mixer trucks.

General and Administrative Expenses

Our general and administrative expenses decreased by 0.3%, from HK$346.4 million in 2007 to HK$345.4 million in 2008. This decrease was primarily due to a reversal of allowance of doubtful debts of HK$22.9 million for 2008, partially offset by an impairment loss on other receivable of HK$12.3 million in 2008. Excluding this decrease in our allowance for doubtful debts and impairment loss on other receivables, our general and administrative expenses increased by 19.4%, from HK$298.0 million in 2007 to HK$355.9 million in 2008. The increase was in line with the growth of our business.

Government levies increased by 122.6% from HK$21.2 million in 2007 to HK$47.2 million in 2008, mainly because of an increase in environmental protection related fees, and land and property taxes. Other operational expenses increased from HK$110.4 million in 2007 to HK$137.6 million in 2008, primarily due to increases in rent and other operational expenses associated with the expansion of our operations.

Change in fair value of investment properties

The change in fair value of our investment properties was primarily contributed by a revaluation of our Qinzhou Pier property from RMB88.0 million to RMB138.0 million as of 2008. These valuations are made using the market sales comparable approach and conducted by an independent valuer.

Finance Costs

Finance costs decreased by 16.6%, from HK$148.2 million in 2007 to HK$123.6 million in 2008, primarily due to a capitalization of HK$866.0 million on the amount due to our immediate holding company in June 2008. The interest rates of our bank borrowings also generally decreased in 2008, despite an increase in the total amount of bank borrowings. Our average interest rate for 2008 was approximately 4.4% compared to 5.6% for 2007.

Profit before Taxation

For the aforementioned reasons, our profit before taxation increased by 112.2%, from HK$387.8 million in 2007 to HK$822.8 million in 2008.

Taxation

Our income tax expense increased by 34.8%, from HK$29.0 million in 2007 to HK$39.1 million in 2008. Our effective tax rate was 7.5% in 2007 and 4.8% in 2008. The decrease in our effective tax rate was mainly because many of our subsidiaries in China enjoyed a tax exemption under the PRC Enterprise Income Tax law. Please see note 10 of the Accountants' Report of the Company set forth in Appendix I of this document for more details.

Profit for the Year

For the aforementioned reasons, our profit for the period from continuing operations increased by 118.4%, from HK$358.8 million in 2007 to HK$783.7 million in 2008. Our discontinued operations related to CR Precast generated a profit of HK$2.1 million in 2007. We did not recognize any profit from our discontinued operations for 2008, as we disposed of CR Precast in December 2007.

Year ended December 31, 2007 compared to year ended December 31, 2006 — Continuing Operations

Turnover

Our turnover increased by 77.3%, from HK$2,111.7 million in 2006 to HK$3,743.2 million in 2007. The increase in turnover was due to both an increase in sales volume and an increase in the average unit price of our products, which mainly resulted from high demand for our products due to continued economic and FAI growth in Southern China. The turnover derived from sales of our cement, clinker, and concrete accounted for 58.3%, 6.6% and 35.1%, respectively of our turnover in 2007.

Cement. Turnover derived from sales of our cement increased by 96.4%, from HK$1,110.5 million in 2006 to HK$2,180.9 million in 2007. The increase in turnover in 2007 was due to the significant increase in our production output and the increase in the average unit prices of our cement. The total volume of cement sold increased by 60.7%, from 5.6 million tons in 2006 to 9.0 million tons in 2007. The increase in our production output was mainly due to the full-year result of three new production lines that commenced operations in 2006 and the commencement of a new production line in 2007. Our average unit price increased by 22.1%, from HK$197.7 in 2006 to HK$241.4 in 2007, because of strong market demand and a higher percentage of high grade cement in our total sales.

Clinker. Turnover derived from sales of clinker increased by 18.3%, from HK$208.9 million in 2006 to HK$247.1 million in 2007. The total volume of clinker sold decreased by 7.7%, from 1.3 million tons in 2006 to 1.2 million tons in 2007. We sold less clinker in 2007 primarily because we used more clinker to support our cement production in 2007. Despite the slight decrease in the actual volume of clinker sold, the sales turnover for clinker increased in 2007 mainly because of an increase the in average unit price of clinker. Our average unit price increased 21.2%, from HK$165.0 per ton in 2006 to HK$199.9 per ton in 2007, predominantly due to strong market demand.

Concrete. Turnover derived from sales of our concrete increased by 66.0%, from HK$792.4 million in 2006 to HK$1,315.2 million in 2007. The sales volume of concrete increased by 56.7%, from 3.0 million cubic meters in 2006 to 4.7 million cubic meters in 2007. This increase was primarily due to the increase in our production capacity and demand for our products, driven by an increased level of construction activities in Southern China. The average unit price of our concrete also increased by 4.1%, from HK$268.4 per cubic meter in 2006 to HK$279.4 per cubic meter in 2007.

Cost of Sales

Our cost of sales increased 63.9%, from HK$1,624.5 million in 2006 to HK$2,662.0 million in 2007. Our total cost of sales increased mainly as a result of increased sales, as well as increased production capacity.

However, as a percentage of turnover, our total cost of sales decreased from 76.9% in 2006 to 71.1% in 2007. This was largely because the average unit price of our products increased at a rate higher than our cost of sales. Although the average purchase price of coal per ton increased by 9.4% from 2006 to 2007, our coal cost as a percentage of turnover derived from sales of cement and clinker decreased from 30.7% in 2006 to 28.3% in 2007, partially due to increased coal consumption efficiency in our production process. As a percentage of turnover, our electricity cost decreased from 15.3% in 2006 to 12.7% in 2007, primarily due to electricity cost savings achieved through the installation of residual heat recovery generators in 2007.

Gross Profit and Profit Margin

As a result of the factors described above, our gross profit increased by HK$593.9 million, or 121.9%, from HK$487.2 million in 2006 to HK$1,081.1 million in 2007. The overall profit margin increased from 23.1% in 2006 to 28.9% in 2007, mainly due to the increase in the average unit prices of all our products in 2007 and greater proportion of cement which on average had a higher profit margin than clinker and concrete sold during this period.

Cement. Gross profit for cement increased from HK$203.4 million in 2006 to HK$663.4 million in 2007, mainly due to the turnover increase of 96.4% from 2006 to 2007. Gross profit margin for cement increased from 18.3% in 2006 to 30.4% in 2007. This increase was primarily attributable to the significant increase in the average unit prices of our cement and the decrease in cost of sales.

Clinker. Gross profit for clinker increased from HK$39.7 million in 2006 to HK$53.9 million in 2007, mainly due to the turnover increase of 18.3% from 2006 to 2007. Gross profit margin for clinker increased from 19.0% in 2006 to 21.8% in 2007. This increase was primarily attributable to the increase in the average unit prices of our clinker and the decrease in cost of sales.

Concrete. Gross profit for concrete increased from HK$244.1 million in 2006 to HK$363.9 million in 2007, mainly due to turnover increase of 66.0% from 2006 to 2007. Gross profit margin for concrete decreased from 30.8% in 2006 to 27.7% in 2007. This decrease was primarily attributable to the commencement of a new batching plant in Nanning. Ready mixed concrete was relatively new to the Nanning market in 2006, which allowed us to charge relatively high prices and therefore resulted in a higher profit margin in 2006. The profit margin of the concrete sold in Nanning decreased in 2007 due to market competition.

Other Income

Other income decreased by HK$16.6 million, or 19.3%, from HK$85.8 million in 2006 to HK$69.2 million in 2007. Other income as percentage of turnover decreased from 4.1% to 1.8%, mainly because we received smaller amounts of local government incentives and derived smaller interest income and exchange gain in 2007. In terms of the others portion of the overall other income, we also had a gain due to an adjustment made based on the physical account of our inventory of HK$1.3 million in 2006.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 62.4%, from HK$166.9 million in 2006 to HK$271.0 million in 2007. This increase was largely due to a significant increase in the sales of our products in 2007. Our selling distribution expenses as a percentage of turnover decreased from 7.9% in 2006 to 7.2% in 2007. This was mainly due to our increased economies of scale, which resulted in our staff costs and transportation costs increasing at a slower rate than the increase in our turnover.

Transportation expenses increased by 75.5% from HK$104.3 million in 2006 to HK$183.0 million in 2007, primarily due to increased sales volumes of our products. Total staff costs increased by 39.2% from HK$29.1 million in 2006 to HK$40.5 million in 2007, primarily due to an increase in the number of sales staff and a general increase in average wages.

General and Administrative Expenses

Our general and administrative expenses increased by 56.6%, from HK$221.2 million in 2006 to HK$346.4 million in 2007. As a percentage of turnover, our general and administrative expenses decreased from 10.5% in 2006 to 9.3% in 2007, mainly due to an increase in our economies of scale.

Our staff costs and benefits increased by 66.7%, from HK$81.9 million in 2006 to HK$136.5 million in 2007, mainly as a result of the increase in the number of administrative staff related to the expansion of our operations. From 2006 to 2007, the number of administrative staff increased from 599 to 652. We also increased the amount of bonus paid to our staff in 2007. Our allowance for doubtful debts increased by 122.0% from HK$21.8 million in 2006 to HK$48.4 million in 2007, primarily due to increased turnover and more stringent credit control policies. Our other miscellaneous expenses increased 33.5% from HK$82.7 million to HK$110.4 million, primarily due to the expansion of our operations.

Gain on Disposal of Subsidiaries

In 2007 we disposed of the entire issued shares in CR Precast to our immediate holding company, Smooth Concept, and recognized a gain of HK$0.4 million for 2007 on the disposal.

Discount on an Acquisition of a Subsidiary

In 2007 we acquired the 100% equity interest of Fuzhou Cement from a third party not related to our Group. Fuzhou Cement is primarily engaged in the manufacture and sale of cement and related businesses in China. As a result of the acquisition, we recognized a gain stemming from the discount on the acquisition, calculated as the difference between the consideration paid and the fair value of the net assets acquired, of HK$2.7 million.

Finance Costs

Finance costs increased by 48.1%, from HK$100.1 million in 2006 to HK$148.2 million in 2007, primarily due to an interest payment of HK$25.6 million associated with the borrowing of HK$1,548.1 million from our immediate holding Company (Smooth Concept) in 2007. The average interest rate of our borrowings was 5.2% in 2006 and 5.6% in 2007.

Profit before Taxation

As a result of the foregoing, our profit before taxation increased by 357.3%, from HK$84.8 million in 2006 to HK$387.8 million in 2007.

Taxation

Our income tax expenses increased significantly by 1,218.2%, from HK$2.2 million in 2006 to HK$29.0 million in 2007. Our effective tax rate was 2.6% in 2006 and 7.5% in 2007. Our effective tax rate was higher in 2007, mainly due to an increase in our profits from our operations in China. In addition, some of our subsidiaries enjoyed a tax holiday in 2006. Please see note 10 to Accountants' Report of the Company for further details. Furthermore, in 2007 we had HK$9.7 million of reversal of tax losses recognized in previous years. The reversal of tax loss is related to the change of our estimation in the recoverability of tax loss for our Company and Dongguan Huarun Cement. As a result, we reversed deferred tax assets, which significantly increased our tax expenses in the year 2007.

Profit for the Year

Our profit for the year from continuing operations increased by HK$276.2 million from HK$82.6 million in 2006 to HK$358.8 million in 2007. We also generated profit in the amount of HK$2.1 million resulting from discontinued operations relating to CR Precast in 2007. As a result, our total profit for the year in 2007 was HK$360.9 million.

LIQUIDITY AND CAPITAL RESOURCES

Details of our current assets and current liabilities for the Track Record Period are as follows:

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Current assets				
Inventories	333,936	362,488	379,789	527,986
Retention monies receivable	19,231	—	—	—
Amount due from immediate holding company	40,794	—	—	—
Amount due from an intermediate holding company	—	160,170	—	—
Amounts due from fellow subsidiaries	—	6,675	—	—
Trade receivables	557,974	649,259	638,156	625,233
Other receivables	270,291	247,405	316,664	383,563
Taxation recoverable	—	—	36,961	4,920
Pledged bank deposits	30,094	9,131	9,171	1,164,903
Cash and bank balances	229,976	339,013	363,590	861,950
Assets classified as held for sale	—	—	157,053	—
Total current assets	1,482,296	1,774,141	1,901,384	3,568,555
Current liabilities				
Trade payables	469,085	586,930	785,190	726,002
Other payables	392,604	663,389	889,235	880,663
Provisions	3,349	3,959	3,861	3,856
Amounts due to immediate holding company	—	1,548,056	—	—
Amounts due to the minority shareholders of subsidiaries	5,892	—	—	—
Amount due to a fellow subsidiary	—	—	10,916	—
Taxation payable	9,496	7,469	11,005	12,133
Bank loans-amounts due within one year	1,806,439	1,185,634	2,810,763	3,897,886
Liabilities associated with assets classified as held for sale	—	—	22,731	—
Total current liabilities	2,686,865	3,995,437	4,533,701	5,520,540
Net current liabilities	(1,204,569)	(2,221,296)	(2,632,317)	(1,951,985)

Historically we have financed our operations and expansion with cash raised from our operating and financing activities. In order to finance the expansion of our cement and clinker production lines and concrete batching plants, we have increased our short-term borrowing. We had net current liabilities of HK$1,204.6 million, HK$2,221.3 million, HK$2,632.3 million and HK$1,952.0 million as at December 31, 2006, 2007, 2008 and June 30, 2009, respectively. Our current assets as at June 30, 2009 mainly comprised HK$1,164.9 million of pledged bank deposits, HK$528.0 million of inventories, HK$625.2 million of trade receivables, HK$383.6 million of other receivables and HK$862.0 million of cash and bank balances. Our current liabilities as at June 30, 2009 mainly comprised HK$726.0 million of trade payables, HK$880.7 million of other payables and HK$3,897.9 million of short-term bank loans. Our net liability position is generally in line with what we believe to be the general practice in China, where it is more difficult to obtain long-term financing to match long-term investment and thereby we have primarily used short-term financing to finance our operation and expansion. With an improved financing position and performance in 2007 and 2008, we were able to secure additional long-term bank loans of HK$3,124.2 million between December 31, 2008 and June 30, 2009. We intend to use a higher proportion of long-term loans to finance our operation and expansion.

We used a significant amount of cash provided by our short-term funding arrangements to invest in the construction of our production facilities and to purchase relevant equipment. We normally record such assets as long term assets rather than current assets. Our cash used in the acquisition of fixed assets, which was mainly used in the construction of new production lines, was HK$955.8 million, HK$1,210.2 million, HK$2,585.9 million and HK$2,487.4 million for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively. As at July 31, 2009, we had unutilized bank facilities of HK$2,415.8 million.

Our current bank borrowings were HK$1,806.4 million, HK$1,185.6 million, HK$2,810.8 million and HK$3,897.9 million as at December 31, 2006, 2007 and 2008 and June 30, 2009. Our other payables, which also increased due to our expansion, were HK$392.6 million, HK$663.4 million, HK$889.2 million and HK$880.7 million, respectively, as at December 31, 2006, 2007 and 2008 and June 30, 2009.

As at the Latest Practicable Date, we had not defaulted on the repayment of any of our borrowings, or experienced any difficulty in raising funds with our principal banks or in rolling over short-term loans borrowed from various banks.

Working Capital

The Directors are of the opinion that, taking into account the financial resources available to us including internally generated funds and the available banking facilities, the working capital available to us is sufficient for our present requirements and for at least the next 12 months from the date of this document.

Current Ratio and Gearing Ratio

The table below sets forth the current ratio and gearing ratio as at the dates indicated.

	As at December 31,			As at June 30,
	2006	**2007**	**2008**	**2009**
Financial Ratio				
Current ratio[(1)]	0.6	0.4	0.4	0.6
Gearing ratio[(2)]	48.2%	46.6%	42.1%	57.4%

[(1)] *Current ratio is calculated based on the current assets divided by current liabilities.*
[(2)] *Gearing ratio is calculated based on the total debt divided by total assets.*

Current Ratio

As at December 31, 2006, 2007, 2008 and June 30, 2009, our current ratio was 0.6, 0.4, 0.4 and 0.6, respectively. Our current ratio decreased from 0.6 as at December 31, 2006 to 0.4 as at December 31, 2007, primarily due to the increase in current liabilities, partially offset by a reduction in bank loans and an increase in current assets. Our current liabilities increased from HK$2,686.9 million as at December 31, 2006 to HK$3,995.4 million as at December 31, 2007, primarily attributable to our $1,548.1 million loan from Smooth Concept. Our current assets increased by HK$291.8 million from December 31, 2006 to December 31, 2007, primarily due to an increase in inventory and cash and bank balances which resulted from an increase in sales. Our current ratio as at December 31, 2008 was 0.4, primarily due to an increase of short term bank loans mainly resulting from expansion of our business operations, partially offset by receivables from government grants, and prepayments and deposits. Our current ratio as at June 30, 2009 was 0.6, primarily because the amount of pledged bank deposits increased significantly during the same period.

Gearing Ratio

As at December 31, 2006, 2007 and 2008 and June 30, 2009, our gearing ratio was 48.2%, 46.6%, 42.1% and 57.4%, respectively. Our gearing ratio decreased from 48.2% as at December 31, 2006 to 46.6% as at December 31, 2007, primarily due to an increase in current assets and an increase in non-current assets mainly resulting from capital expenditures of HK$1,360.5 million made during the year and a decrease in bank loans, offset by the borrowing of HK$1,548.1 million from Smooth Concept, the immediate holding company. We borrowed less from banks as we have received a cash advance from our immediate holding company. The borrowing from Smooth Concept was used to fund our capital expenditures.

Our gearing ratio decreased from 46.6% as at December 31, 2007 to 42.1% as at December 31, 2008, primarily due to the capitalization of our borrowing of HK$866.0 million from Smooth Concept, our immediate holding company, partially offset by an increase in bank loans. Our gearing ratio as at June 30, 2009 was 57.4%, primarily because the amount of bank loans increased from HK$4,497.6 million as at December 31, 2008 to HK$8,708.9 million as at June 30, 2009.

Cash Flow and Capital Management

We centrally manage our capital to ensure proper and efficient collection and deployment of our funds. Specifically, each of our subsidiaries submits to the financial department at our headquarters (i) its three-year budget plan each year and (ii) its management account, statements of comprehensive income, consolidated statements of financial position and consolidated statements of cash flow on a monthly basis. If any of our subsidiaries incurs any significant variance from its budget plan, the subsidiary must submit a report to the financial department at our headquarters to account for the differences. If additional funding is needed, the subsidiary must submit a request form along with the reasons for the request to the financial department at our headquarters for approval. The financial department at our headquarters reviews each of these items carefully to ensure each subsidiary secures a sufficient amount of working capital and executes its budget plan accurately.

We also use a consolidated annual budget which is supplemented by quarterly and monthly cash flow rolling projections to control our current cash inflow and outflow. We also use a one to three year budgeting system to monitor our cash flow, which covers production and operational costs, construction cost for our production facilities, realization of turnover from our sales and financing plans. All disbursement of funds require the approval of the appropriate managers. We have improved our ability to generate cash through increasing our sales. We have also focused on strengthening our capital management through various means, including increasing our efforts to collect receivables and shortening our credit period to our customers. In addition, we have required all of our subsidiaries to report their recovery of receivables to the financial department at our headquarters on a monthly basis. In addition, we manage our long-term capital commitment for the construction of our production lines through our capital expenditure and budget plan. Specifically, we evaluate the following when we plan our long-term capital commitments: (i) our current and projected operational and financial performance; (ii) our cash position and ability to obtain further financing; (iii) demand for our products and (iv) the change in government policies. We also review our capital requirements and payment schedules on a monthly basis to ensure we have secured sufficient funds.

As at June 30, 2009, our indebtedness totaled HK$10,315.6 million, which included HK$8,708.9 million of bank loans and HK$1,606.7 million of trade payables and other payables. Based on our current development plan, we estimated that an aggregate cost of approximately HK$3,550.9 million would be required to complete the production lines currently under construction and an aggregate cost of approximately HK$3,833.8 million would be required to complete the production lines to be constructed as part of our future plans.

We intend to finance our capital expenditure using cash generated from our operations, funds from our bank loans and bridge loans and other means. Although a significant proportion of our indebtedness is short-term, we have never defaulted on our loans and we have maintained good relationships with PRC commercial banks. As a result, we believe we will be able to continue to refinance our short-term loans. As at July 31, 2009, we had available and unutilized bank facilities of approximately HK$11,593.1 million and HK$2,815.7 million, respectively. We seek to obtain additional credit facilities from banks in the future to enhance our working capital adequacy and plan to lengthen our loan maturity profile by increasing the proportion of long-term bank loans.

Cash Flow

The following table sets forth a summary of our net cash flow for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Net cash generated from operating activities	150,340	762,865	1,052,790	328,677	254,881
Net cash used in investing activities	(1,003,541)	(1,310,786)	(2,620,773)	(942,798)	(3,960,838)
Net cash generated from financing activities	855,579	643,076	1,579,331	589,690	4,204,893
Net increase (decrease) in cash and cash equivalents for the year/period	2,378	95,155	11,348	(24,431)	498,936
Cash and cash equivalents at beginning of the year/period	221,362	229,976	339,013	339,013	363,889
Effect of foreign exchange rate changes of cash and bank balances	6,236	13,882	13,528	13,562	(875)
Cash and cash equivalents at the end of the year/period, representing cash and bank balances	229,976	339,013	363,889	328,144	861,950

Net cash generated from operating activities

The following table summarizes our cash flow from operating activities for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Operating cash inflows before movements in working capital	396,913	911,143	1,095,454	720,129	627,560
Change in working capital — generated /(used)	(115,314)	56,160	202,346	(319,639)	(231,454)
Cash generated from operations	**281,599**	**967,303**	**1,297,800**	**400,490**	**396,106**
Hong Kong Profits Tax (paid) refunded	(9,301)	(15,092)	(21,627)	3,503	375
Chinese Mainland Enterprise Incomes Tax (paid) refunded	(1,801)	(5,010)	(42,413)	(4,598)	14,281
Interest paid	(120,157)	(184,336)	(180,970)	(70,718)	(155,881)
Net cash generated from operating activities	**150,340**	**762,865**	**1,052,790**	**328,677**	**254,881**

Net cash generated from operating activities was HK$254.9 million for the six months ended June 30, 2009, HK$1,052.8 million for 2008, HK$762.9 million for 2007 and HK$150.3 million for 2006.

Six months ended June 30, 2009 compared to the six months ended June 30, 2008

Our net cash generated in operating activities was HK$254.9 million for the six months ended June 30, 2009 as compared to net cash generated from operating activities of HK$328.7 million for the six months ended June 30, 2008. This change reflected lower profit before taxation, as adjusted for income statement items with non-cash effects of HK$75.7 million partly offset by a reduction of HK$88.2 million in working capital usage for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008. We used HK$231.5 million in working capital during the six months ended June 30, 2009, which mainly reflected:

(i) an increase of HK$148.8 million in inventories primarily due to our effort to secure more raw materials (mainly coal) for our increased sales;

(ii) a decrease of HK$58.4 million in trade payables; and

(iii) an increase of HK$134.9 million in other receivables. The increase in other receivables mainly related to an increase in (a) the amount of deposits paid to our suppliers, (b) value-added tax, government incentives receivables and others and (c) the amount of prepayments and deposits. All these three items generally increased with the growth of our business. The increase in the amount of pre-payments and deposits was partially due to the fact that we have advanced approximately HK$30.9 million of construction materials to our construction subcontractors in Fengkai. Such advances were accounted for as part of our pre-payments and deposits.

These decreases in working capital were partially offset by an increase in other payables of HK$82.9 million and a decrease in trade receivables of HK$30.0 million.

Year ended December 31, 2008 as compared to year ended December 31, 2007

Our net cash generated from operating activities was HK$1,052.8 million in 2008 as compared to HK$762.9 million in 2007. This increase mainly reflected higher profit before taxation, as adjusted for income statement items with non-cash effects of HK$249.0 million and an increase of HK$146.2 million in working capital generated for 2008. We generated HK$202.3 million in working capital during 2008, which mainly reflected:

(i) an increase of HK$159.0 million in trade payables primarily due to increased purchase of raw materials due to increased sales;

(ii) a decrease of HK$71.7 million in trade receivables which mainly attributable to better credit controls; and

(iii) an increase of HK$29.5 million in other payables.

These increases in working capital were partially offset by an increase of HK$67.5 million in other receivables primarily due to an increase in prepayments and deposits which mainly related to (a) a tender deposit paid for the acquisition of 29.3% of equity interest of Hainan Cement and (b) the amount of deposits prepaid for the rental and management fee deposits paid for staff quarters in China. The tender deposit was subsequently re-classified as deposits for acquisitions of an associate as at June 30, 2009 upon the signing of a binding agreement between us and the vendor.

Year ended December 31, 2007 compared to year ended December 31, 2006

Our net cash generated from operating activities was HK$762.9 million in 2007 as compared to HK$150.3 million in 2006. This increase mainly reflected higher profit before taxation, as adjusted for income statement items with non-cash effects of HK$211.8 million, and a HK$171.5 million reduction in working capital usage. However, this was partially offset by increased interest and tax payments of HK$73.2 million for 2007 as compared to 2006. We generated HK$56.2 million in working capital during 2007, which mainly reflected:

(i) an increase of HK$289.1 million in trade and other payables primarily due to increased purchase of raw materials due the greater sales as well as increased payables relating to the construction of new production lines at Nanning and the acquisition of fixed assets as part of our continued effort to expand our operations.

(ii) a decrease in other receivable of HK$31.7 million.

These increases in working capital were partially offset by an increase of HK$252.9 million in trade receivables and an increase of HK$12.7 million in inventories.

The increased interest payments in 2007 mainly reflected greater interest expenses from bank loans as a result of higher effective interest rates as well as interest from additional borrowings from our immediate holding company.

Net cash used in investing activities

Our net cash used in investing activities was HK$3,960.8 million for the six months ended June 30, 2009, primarily reflecting (i) the payment and deposit paid for acquisition of fixed assets of HK$2,487.4 million, (ii) an increase of HK$1,157.0 million in pledged bank deposits and (iii) the deposits paid for the acquisition of 29.3% of an associate, Hainan Cement, for which we paid HK$237.1 million. The acquisition of fixed assets related primarily to the construction of our new production facilities. The increase in pledged bank deposits related primarily to use of these deposits as collateral for our bank loans.

Our net cash used in investing activities was HK$2,620.8 million in 2008, primarily reflecting (i) the payment and deposit paid for acquisition of fixed assets of HK$2,585.9 million, (ii) the acquisition of 100% of equity interest in a subsidiary for HK$106.0 million and (iii) an advance to governments of HK$118.9 million. The acquisition of fixed assets primarily related to construction in progress related to construction of our production lines and the purchase of related equipment. The fixed assets acquired included new cement and clinker production lines and new concrete batching plants. The expenditure of HK$106.0 million was primarily related to the acquisition of Tino Investments Limited, which primarily engages in the manufacture and sale of cement in China. The acquisition of Tino Investment Limited was in line with our expansion strategy. The advances to government relate to an agreement that we have entered into with a local government. Pursuant to the agreement, the advance would be used by a local government to facilitate the transfer of a piece of land to our Group for the construction of our production lines. The advance is unsecured and bears interest at the prevailing market borrowing rates determined by the PBOC and it will be repayable through offsetting of certain taxes to be payable by us to the local government. Please refer to note 24 to the Accountants' Report for the Company set forth in Appendix I to this document for more information.

Our net cash used in investing activities was HK$1,310.8 million in 2007, primarily reflecting (i) the payment and deposit paid for acquisition of fixed assets of HK$1,210.2 million, (ii) an advance to our intermediate holding company of HK$160.2 million, (iii) the net cash outflow of HK$9.6 million for the disposal of the entire issued shares of CR Precast, (iv) the acquisition of additional interests in a subsidiary for HK$7.7 million and (v) the increase in prepaid lease payments of HK$6.2 million. The acquisitions of fixed assets primarily related to construction in progress in connection with our new production lines and the purchase of related equipment. The lease prepayments primarily related to our factory's land use rights. The outflow of HK$7.7 million was related to the acquisition of a 30% equity interest in Zhanjiang Cement from third parties not related to our Group.

Our net cash used in investing activities was HK$1,003.5 million in 2006, primarily reflecting (i) the payment and deposit paid for acquisition of fixed assets of HK$955.8 million, (ii) the acquisition of additional interests in a subsidiary for HK$20.4 million and (iii) the increase in prepaid lease payments of HK$39.7 million. These factors were partially offset by a HK$45.2 million decrease in pledged bank deposits. The acquisitions of fixed assets primarily related to construction in progress in connection with our new production facilities and the purchase of related plant and equipment. The lease prepayments primarily related to our acquisition of land use rights. The outflow of HK$20.4 million was related to our acquisition of a 4.2% equity interest in Hongshuihe Joint Stock resulting from unrelated minority shareholders of Hongshuihe Joint Stock.

Net cash generated from financing activities

Net cash generated from financing activities for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 was HK$855.6 million, HK$643.1 million, HK$1,579.3 million and HK$4,204.9 million.

Net cash generated from financing activities was HK$4,204.9 million for the six months ended June 30, 2009, due primarily to increased net bank loans of HK$4,215.8 million. We used the proceeds from our bank loans mainly in the construction of our production facilities and the purchase of related equipments.

Our net cash generated from financing activities was HK$1,579.3 million in 2008, primarily due to increased net bank loans of HK$2,411.3 million. The net borrowing was used to support our capacity expansion.

Our net cash generated from financing activities was HK$643.1 million in 2007, representing an advance from our immediate holding company of HK$1,689.2 million partially offset by a net repayment of bank loans of HK$1,046.2 million. Our cash generated from financing activities was used to support our capacity expansion and for working capital purposes.

Our net cash generated from financing activities was HK$855.6 million raised from our net bank borrowings in 2006. The bank borrowings during 2006 were used for working capital purposes, to support our capacity expansion and to manage our interest expenses.

Capital Commitments and Contingent Liabilities

Capital commitments

We have entered into production facility construction contracts as well as equipment purchase agreements. The table below sets forth the total amount of our commitments as at the indicated dates of our consolidated statements of financial position.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Contracted but not provided for[(1)]	685,319	244,389	2,784,078	2,329,241
Authorized but not contracted for[(2)]	22,796	—	3,431,983	5,091,433
	708,115	244,389	6,216,061	7,420,674

[(1)] Contracts were signed but the contracted items have not been delivered as at each date of consolidated statements of financial position.
[(2)] Authorized by internal budget, but no contract has been signed as at each date of consolidated statements of financial position.

As at December 31, 2007, our capital commitments that have been contracted but not provided for mainly related to the capital commitments for the construction of two cement production lines and one clinker production line. As at December 31, 2008, our capital commitments that have been contracted but not provided for mainly related to the capital commitments for the construction of six cement production lines, seven clinker production lines and three concrete batching plants. We have also incurred commitments in relation to certain new projects to be constructed. As a result, we have incurred a greater amount of capital commitments that have been authorized but not contracted for as at December 31, 2008. We plan to finance the capital commitments with funds generated from our operations, bank borrowings and other means.

Operating lease commitments

We lease a number of properties under non-cancellable operating leases. Our leases have an average term of four to eight years. The table below sets forth our commitment for rental payment under non-cancellable operating leases as at the indicated dates of consolidated statements of financial position.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Within one year	17,792	13,305	15,369	22,710
In the second to fifth year inclusive	58,654	35,670	14,037	32,966
Over five years	63,878	56,454	12,672	45,150
	140,324	105,429	42,078	100,826
Represented by:				
Land and buildings	140,324	100,304	35,259	90,955
Motor vehicles	—	5,125	6,819	9,871
	140,324	105,429	42,078	100,826

Statement of Indebtedness

We have financed our operations primarily through cash flows from operations, loans from banks, related-party advances and proceeds from the issuance of debt securities. The table below sets forth our short-term and long-term borrowings as at the dates indicated.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Bank loans repayable:				
Within one year	1,806,439	1,185,634	2,810,763	3,897,886
After one year but within two years	535,233	327,459	818,558	1,761,642
After two years but within three years	241,461	411,770	576,706	1,882,368
After three years but within four years	201,563	79,418	236,646	911,116
After four years but within five years	103,169	—	54,902	255,861
	2,887,865	2,004,281	4,497,575	8,708,873
Less: Amount due within one year included in current liabilities	(1,806,439)	(1,185,634)	(2,810,763)	(3,897,886)
Amount due after one year	1,081,426	818,647	1,686,812	4,810,987
Secured	180,000	160,000	—	1,146,170
Unsecured	2,707,865	1,844,281	4,497,575	7,562,703
	2,887,865	2,004,281	4,497,575	8,708,873

All non-trade balances with, and guarantees from or to, China Resources Holdings and its associates will be fully repaid and released.

Indebtedness as at July 31, 2009

At the close of business on July 31, 2009, we had a total amount of approximately HK$11,593.1 million of banking facilities available to our Group, of which approximately HK$2,815.7 million was unutilized. As at

July 31, 2009, for the purpose of this indebtedness statement, our Group had total banking borrowings of approximately HK$8,585.5 million, of which the bank borrowings of approximately HK$1,179.9 million were secured and the remaining bank borrowings of approximately HK$7,405.6 million were secured.

Save as disclosed in the document, our Group did not have as at the close of business on July 31, 2009 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Pursuant to some of our loan agreements, China Resources Holdings is required to remain a beneficial owner of at least 51% of our voting shares, or remain our single largest shareholder (whether directly or indirectly). As at July 31, 2009, the aggregate amount of the banking facilities subject to such obligation was HK$1,098.1 million. Such banking facilities are due to expire before the end of September 2011.

CAPITAL EXPENDITURES

Our capital expenditures are comprised of expenditures for land and buildings, plant and equipment, logistics equipment, construction in progress and others. Our capital expenditures in 2006, 2007, 2008 and for the six months ended June 30, 2009 were HK$1,354.4 million, HK$1,360.5 million, HK$2,628.3 million and HK$2,617.3 million, respectively. Our capital expenditures during the Track Record Period primarily related to our expansion.

Our capital expenditures in 2006 related primarily to the construction of five cement production lines in Pingnan, Guigang and Nanning, four clinker production lines in Pingnan and Guigang, and three concrete batching lines in Xixiangtang and Beihai.

Our capital expenditure in 2007 related primarily to the construction of eight new cement production lines in Pingnan and Nanning and the on-going construction of two cement production lines in these areas, two clinker production lines in Pingnan and Nanning, and 16 concrete batching lines in various towns of Guangdong and Guangxi.

For 2008, our capital expenditure related primarily to the on-going construction of 18 cement production lines in Nanning, Pingnan, Shangsi, Fengkai, Fuchuan and Shantou, and the construction of seven new clinker production lines in Nanning, Pingnan, Shangsi, Fengkai and Fuchuan and six concrete batching plants in various towns in Guangdong and Guangxi.

We have historically funded our capital expenditures from internally generated cash, bank and other short-term borrowings and equity and debt securities. The following table sets forth our capital expenditures for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2006	**2007**	**2008**	**2009**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Land and buildings	12,045	3,441	13,534	109
Plant and equipment	81,559	54,941	71,156	15,825
Logistics equipment	46,660	49,309	87,687	41,846
Construction in progress	1,204,509	1,240,866	2,447,172	2,551,645
Others	9,624	11,901	8,761	7,892
Total	1,354,397	1,360,458	2,628,310	2,617,317

Planned Capital Expenditures

We believe that we have sufficient working capital for the period ending 12 months from the date of this document.

Our capital expenditures will mainly comprise of expenditures related to the construction of new production lines. We are currently constructing eight cement production lines in Shangsi, Fengkai, Fuchuan and Shantou, four additional clinker production lines in Fengkai, Fuchuan and Shangsi, and six additional concrete batching lines in various areas of Guangdong, Guangxi and Fujian. Subject to obtaining the relevant approvals, the Company intends to construct six additional cement production lines in Fengkai, Tianyang and Wuxuan, four additional clinker production lines in Fengkai, Tianyang and Wuxuan, and four additional concrete batching lines in various areas of Guangdong, Hainan and Fujian by the end of 2010. Please see the section headed “Future Plans” of this document for further information.

INVENTORIES

The table below sets forth a summary of our inventories and average inventory turnover days for the periods indicated.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Raw materials and consumables	264,667	258,290	280,868	335,249
Work in progress	22,877	32,134	21,857	84,316
Finished goods	46,392	72,064	77,064	108,421
	333,936	362,488	379,789	527,986
Average Inventory Turnover Days(1)(2)	57.4	47.7	30.4	41.4

(1) *Average inventory equals inventory at the beginning of the year/period plus inventory at the end of the year/period divided by two. Average inventory turnover days equals average inventory divided by cost of sales and multiplied by 365 days. Average inventory turnover days for the six months ended June 30, 2009 equal average inventory divided by cost of sales and multiplied by 183 days. The average inventory was calculated based on the inventory as at January 1, 2009 plus the inventory as at June 30, 2009 divided by two.*

(2) *As noted in our basis of presentation in this section, the assets and liabilities of our discontinued operations, CR Precast, have been included in our consolidated statements of financial position for the year ended December 31, 2006, but not in the consolidated statements of financial position for the two years ended December 31, 2008 because we disposed of CR Precast in December 2007. The inventories of CR Precast was HK$6.9 million for the year ended December 31, 2006. The inventory turnover days of CR Precast were 16.7 days in 2006. If the inventories of our discontinued operations had been eliminated from our consolidated statements of financial position in 2006 and 2007, our average inventory turnover days in 2006 and 2007 would have been 55.7 days and 47.3 days, respectively. We believe that this presentation is useful because it enhances the comparability of such data on a period-by-period basis. Such data are not derived from information prepared under HKFRS.*

Our total inventories increased from HK$333.9 million as at December 31, 2006 to HK$362.5 million as at December 31, 2007, primarily due to an increase in finished goods and works in progress in anticipation of increased sales, partially offset by decreased inventories of raw materials and consumables.

Our total inventories increased from HK$362.5 million as at December 31, 2007 to HK$379.8 million as at December 31, 2008. The increase in inventory balance was primarily attributable to an increase in our purchases of raw materials and consumables as a result of an increase in our scale of operation.

Our total inventories increased from HK$379.8 million as at December 31, 2008 to HK$528.0 million as at June 30, 2009. The increase in inventory balance was mainly due to an increase in our purchase of raw materials and work-in-progress to support our growth. With respect to our inventories balance of HK$528.0 million as at June 30, 2009, HK$366.1 million of such inventories have been used as at July 31, 2009.

Our average inventory turnover days decreased from 57.4 days in 2006 to 47.7 days in 2007, mainly because of an increase in sales and more efficient inventory management. We adopted new procedures at our central procurement center located in Guigang, Guangxi in 2007. Our Directors believe that these procedures allowed us to purchase our raw materials more systematically and conduct our inventory analysis more efficiently. The new procedures required our production facilities to provide the central procurement center with daily inventory reports on their coal supplies and selected raw materials, giving our central procurement center updated information on their respective inventory levels. The information helps us manage inventory levels and our central procurement center to adjust its purchase orders accordingly.

Our average inventory turnover days further decreased from 47.7 days in 2007 to 30.4 days as at December 31, 2008, mainly due to the continuous increase in demand for our products and the further strengthening of our inventory management.

Our average inventory turnover days increased from 30.4 days in 2008 to 41.4 days for the six months ended June 30, 2009, mainly due to larger inventory balances of raw materials and consumables that we carried as at June 30, 2009 for our expected production needs for the third and fourth quarters, when demand is traditionally at its peak.

TRADE AND OTHER RECEIVABLES

The table below sets forth a breakdown of our trade receivables and our average trade receivables turnover days for the periods indicated.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables from				
— third parties	541,668	619,128	626,560	618,976
— fellow subsidiaries	14,488	30,131	11,596	6,257
— minority shareholder of a subsidiary	1,818	—	—	—
	557,974	649,259	638,156	625,233
Average trade receivables Turnover days[(1)(2)]	101.8	58.9	40.6	42.2

(1) *Average trade receivables equal trade receivables at the beginning of the year/period plus trade receivables at the end of the year/period divided by two. Average trade receivables turnover days equal average trade receivables divided by turnover and multiplied by 365. Average trade receivables turnover days for the six months ended June 30, 2009 equal average trade receivables divided by turnover and multiplied by 183 days. The average trade receivables were calculated based on the trade receivables as at January 1, 2009 plus the trade receivables as at June 30, 2009 divided by two.*

(2) *As noted in our basis of presentation in this section, the assets and liabilities of our discontinued operations, CR Precast, have been included in our consolidated statements of financial position for the year ended December 31, 2006, but not in the consolidated statements of financial position for the two years ended December 31, 2008 because we disposed CR Precast in December 2007. The trade receivables of CR Precast were HK$101.1 million for the year ended December 31, 2006. The trade receivables turnover days of CR Precast were 193.8 days in 2006. If the trade receivables of our discontinued operations were eliminated from our consolidated statements of financial position in 2006, our average trade receivables turnover days in 2006 and 2007 would have been 81.9 days and 53.9 days, respectively. We believe that this presentation is useful because it enhances the comparability of such data on a period-by-period basis. Such data are not derived from information prepared under HKFRS.*

Our third-party trade receivables are derived primarily from sales of our cement and concrete products. Our trade receivables for the year ended December 31, 2006 include the Precast Group's trade receivables. We had a policy of allowing an average credit period to our customers, aside from the customers of the Precast Group, ranging from 0 to 90 days from the date of issuance of invoices from 2006 to 2007. At the beginning of 2008, we reduced the credit period to 0 to 30 days for cement customers and 0 to 60 days for concrete customers. We reduced these credit periods to improve our monthly cash flows and to reduce our risk, interest financing and bad debt expenses. The receivables from the customers of the Precast Group are normally aged for 1 to 2 years since the customers of the Precast Group are mainly constructors and we allow the constructors to settle partial balances after the completion of their construction projects. We do not have a significant concentration risk, as our exposure is spread over a large number of companies and customers.

Our trade receivables were HK$558.0 million, HK$649.3 million, HK$638.2 million and HK$625.2 million as at December 31, 2006, 2007 and 2008 and as at June 30, 2009. As at December 31, 2006, 2007 and 2008, our trade receivables as a percentage of our turnover were 26.4%, 17.3%, 11.0%, respectively. The decrease of our trade receivables as a percentage of our turnover from 2006 to 2008 mainly due to our effort to tighten our credit policy and encourage cash payment upon delivery. With respect to our HK$625.2 million of trade receivables as at June 30, 2009, HK$321.9 million were settled by our customers as at July 31, 2009.

Our average trade receivables turnover days decreased significantly from 101.8 days in 2006 to 58.9 days in 2007 primarily due to our continuous efforts pursuant to our credit control policy and the implementation of our cash sale policy to selected customers. In particular, we established a credit control department in late 2006 which specializes in assessing the creditworthiness and financial positions of our customers before granting them credit. In addition, we continued to enforce our tightened credit control policy and wrote off uncollectibles accordingly.

Our average trade receivables turnover days decreased further from 58.9 days in 2007 to 40.6 days in 2008 primarily due to the abovementioned reduction of credit periods for our cement and concrete customers.

Our average trade receivables turnover days remained relatively stable at 40.6 days in 2008 and at 42.2 days for the six months ended June 30, 2009.

The table below sets forth an analysis of trade receivables that were past due but not impaired as at the dates indicated.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Past due 1 to 90 days	213,469	138,258	222,700	229,950
Past due 91 to 180 days	79,708	24,331	42,434	68,600
Past due 181 to 360 days	53,677	32,048	17,113	48,159
Past due over 360 days	57,260	1,044	—	—
Total	404,114	195,681	282,247	346,709

The table below sets forth our other receivables as at the dates indicated.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Other receivables				
— prepayments and deposits	28,808	39,124	128,792	124,370
— deposits paid to suppliers	79,421	73,616	59,425	99,563
— value-added tax, government incentive receivables and others	105,394	64,819	69,222	108,810
— receivables from government	16,939	18,153	22,786	20,408
— receivables from the sales of the old production line	16,280	15,547	—	—
— prepaid lease payments charged within one year	3,917	4,974	7,278	7,930
— staff advances	4,325	5,651	4,929	7,079
— others	15,207	25,521	24,232	15,403
	270,291	247,405	316,664	383,563

Our other receivables decreased from HK$270.3 million in 2006 to HK$247.4 million in 2007, primarily due to a decrease in value-added tax and other tax recoverable in 2007. Such decrease was due to the application of a portion of the value-added tax paid in 2006 towards the value-added tax payable in 2007.

Our other receivables increased to HK$316.7 million in 2008, which primarily reflected an increase in prepayments and deposits due to a tender deposit of RMB60.0 million (equivalent to HK$68.2 million) paid for the acquisition of 29.3% equity interest in Hainan Cement.

Our other receivables increased to HK$383.6 million as at the six months ended June 30, 2009, primarily due to increases in deposits paid to suppliers and value-added tax, government incentive receivables and others. The increase in deposits paid to suppliers related to increased purchases of raw materials to support increased sales. The increase in value-added tax, government receivables and others mainly related to increased sales and government incentives to support the development of environmentally friendly cement technology. With respect to our HK$99.6 million of deposits paid to our suppliers as at June 30, 2009, HK$26.2 million of such deposits were recognized as purchases as at July 31, 2009.

The table below sets forth the movement in our allowance for doubtful debts for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
	(HK$'000)	(HK$'000)	(HK$'000)	(HK$'000)
Balance at beginning of the year/period	29,427	40,476	92,381	72,169
Allowance (reversal of allowance) on receivables	21,834	51,466	(22,863)	(17,769)
Amounts written off as uncollectible	(11,566)	(3,050)	(1,503)	(1,088)
Exchange adjustment	781	3,489	4,154	(59)
Balance at end of year/period	40,476	92,381	72,169	53,253

In determining the recoverability of the trade receivables, we assess any change in credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

Our allowance for doubtful debts was HK$40.5 million in 2006, predominantly due to an increase in our allowance on receivables and the amount written off as uncollectible, resulting from our sales increase and the tightening of our credit policy. Our allowance for doubtful debts further increased to HK$92.4 million in 2007, primarily due to a further increase in our impairment loss recognized on receivables as a result of our continued increase in sales and credit policy. However, our allowance for doubtful debts decreased to HK$72.2 million in 2008, primarily due to net recovery of trade receivables of HK$22.9 million. Our allowance for doubtful debts decreased further to HK$53.3 million as at June 30, 2009, primarily due to net recovery of trade receivables of HK$17.8 million.

TRADE AND OTHER PAYABLES

The table below sets forth a breakdown of our trade payables, the total of our other payables and average trade payable turnover days as at the dates indicated.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables to				
— third parties	448,492	586,930	785,190	726,002
— fellow subsidiaries	20,593	—	—	—
	469,085	586,930	785,190	726,002
Average trade payables Turnover days[(1)(2)]	94.1	72.4	56.1	69.0

(1) *Average trade payables equal trade payables at the beginning of the year/period plus trade payables at the end of the year/period divided by two. Average trade payables turnover days equal average trade payables divided by the cost of sales and multiplied by 365 days. Average trade payables turnover days for the six months ended June 30, 2009 equal average trade payables divided by cost of sales and multiplied by 183 days. The average trade payables were calculated based on the trade payables as at January 1, 2009 plus the trade payables as at June 30, 2009 divided by two.*

(2) *As noted in our basis of presentation in this section, the assets and liabilities of our discontinued operations, CR Precast, have been included in our consolidated statements of financial position for the year ended December 31, 2006, but not in the consolidated statements of financial position for the two years ended December 31, 2008 because we disposed CR Precast in December 2007. The trade payables of CR Precast were HK$44.7 million for the year ended December 31, 2006. The trade payables turnover days of CR Precast were 100.2 days in 2006. If the trade payables of our discontinued operations were eliminated from our consolidated statements of financial position in 2006, our average trade payables turnover days in 2006 and 2007 would have been 83.7 days and 69.3 days respectively. We believe that such presentation is useful because it enhances the comparability of such data on a period-by-period basis. Such data are not derived from information prepared under HKFRS.*

Our trade payables are derived primarily from payables relating to the purchase of raw materials. Our suppliers typically grant us credit terms ranging from 30 days to 90 days.

Our trade payables increased from HK$469.1 million in 2006 to HK$586.9 million in 2007, and further to HK$785.2 million in 2008, primarily due to our purchase of a larger quantity of raw materials to support the growth of our operations from 2006 to 2008. Our trade payables decreased to HK$726.0 million as at June 30, 2009. With respect to our HK$726.0 million of trade payables as at June 30, 2009, HK$384.0 million were subsequently settled as at July 31, 2009.

Our average trade payable turnover days decreased from 94.1 days in 2006 to 72.4 days in 2007 primarily because we better utilized cash flow generated from operating activities to settle some of our trade payables earlier and maintain better relationships with our suppliers.

Our average trade payable turnover days decreased from 72.4 days in 2007 to 56.1 days in 2008 because we began to make payment to some of our coal suppliers upon delivery in 2008 to ensure a stable coal supply and maintain strong relationships with our suppliers in light of recent increases in the price of coal.

Our average trade payable turnover days increased from 56.1 days in 2008 to 69.0 days for the six months ended June 30, 2009 due to longer settlement period during non-peak seasons.

The table below sets forth our other payables as at the dates indicated.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Other payables				
— payables to constructors and for the acquisition of fixed assets	192,757	244,935	330,669	396,960
— payables for acquisition of subsidiaries	—	38,545	6,990	6,990
— deposits from customers	34,976	93,094	125,045	153,865
— guarantee deposits from suppliers	26,440	25,287	17,222	104,130
— salaries and staff welfare payables	27,049	74,677	58,208	46,238
— VAT payables	56,670	60,397	42,901	24,122
— transportation payables	18,294	52,774	39,881	34,865
— accrued expenses	27,545	40,743	39,941	44,355
— others	8,873	32,937	71,624	69,138
— Advanced receipts in respect of assets classified as held for sale	—	—	156,754	—
Total	392,604	663,389	889,235	880,663

As at December 31, 2006, 2007, 2008 and June 30, 2009, we had other payables of HK$392.6 million, HK$663.4 million, HK$889.2 million and HK$880.7 million, respectively. Our other payables mainly comprise of payables to constructors and for acquisitions of fixed assets, deposits from customers, transportation payables and VAT payables.

Our other payables increased from HK$392.6 million as at December 31, 2006 to HK$663.4 million as at December 31, 2007, primarily due to an increase of HK$52.2 million of payables to constructors and for the acquisition of fixed assets due to our continuous expansion plan, and an increase of HK$58.1 million in deposits from customers due to the increase in sales.

Our other payables further increased to HK$889.2 million as at December 31, 2008, primarily due to an increase of HK$85.7 million of payables to constructors and for the acquisitions of fixed assets and an increase of HK$32.0 million in deposits from customers. The increases of these items from 2007 to 2008 were attributable to (i) the construction of new production lines, (ii) our continuous investment in the construction-in-progress production lines and (iii) the increased amounts of deposits from customers derived from increased sales.

Our other payables remained relatively stable at HK$880.7 million as at June 30, 2009 as compared to the balance as at December 31, 2008. With respect to the HK$153.9 million of deposits from our customers as at June 30, 2009, we recognized HK$133.3 million as our turnover as at July 31, 2009. Our guarantee deposits increased significantly from HK$17.2 million as at December 31, 2008 to HK$104.1 million as at June 30, 2009 mainly due to our effort to control the quality of our supplies and the timetable of our construction projects. We obtained the guarantee deposits from our suppliers through withholding parts of our payments to our suppliers as supplier guarantee deposits and directly obtaining cash deposit payments from our suppliers. The balance of such guarantee deposits as at July 31, 2009 was HK$99.8 million.

PLEDGED BANK DEPOSITS

We made pledged bank deposits to secure banking facilities and to secure sales contracts to customers and legal actions against customers. As at December 31, 2006, 2007 and 2008 and as at June 30, 2009, our pledged bank deposits amounted to HK$30.1 million, HK$9.1 million, HK$9.2 million and HK$1,164.9 million, respectively. As at the same dates, we pledged HK$14.6 million, HK$1.1 million, HK$0.03 million and HK$1,155.7 million, respectively, to secure banking facilities and HK$15.5 million, HK$8.0 million, HK$9.1

million and HK$9.2 million, respectively, to secure sales contracts to customers and legal action against customers. The significant increase in pledged bank deposits as at June 30, 2009 was because we used the pledged bank deposits as collateral for our bank loans. In terms of sales contracts, the pledged bank deposits serve as a form of performance guarantee by us for performing sales contracts with our customers. These pledged bank deposits will be released once the relevant sales contracts have been performed. In terms of lawsuits, the pledged bank deposits are required as a security deposit for commencing legal actions against our customers in the PRC Court if the plaintiff is seeking to preserve the assets of the defendants. Currently, the legal actions against our customers are still in preliminary stage. As at the Latest Practicable Date, our PRC subsidiaries filed a number of litigation cases as the plaintiff regarding payment in arrears by customers in their daily operations. Many of the cases were settled through intermediation or judgments were passed in favor of our PRC subsidiaries and enforcement proceedings were in progress. For the outstanding cases, our PRC counsel Concord & Partners are of the opinion that the PRC subsidiaries' claims are justified. We believe that the above litigation cases will not have any material adverse effect on our Group's operation and financial performance.

INTANGIBLE ASSETS

Our intangible assets consist of goodwill and mining rights. As at December 31, 2006, 2007 and 2008 and June 30, 2009, the carrying value of our intangible assets amounted to HK$101.4 million, HK$113.7 million, HK$137.8 million and HK$136.5 million, respectively.

Goodwill

We recognized goodwill of HK$45.1 million, HK$53.3 million, HK$62.8 million and HK$62.8 million as at December 31, 2006, 2007, 2008 and June 30, 2009, respectively. The goodwill relates to the excess of consideration over the fair market value of our acquired subsidiaries.

Mining Rights

The carrying value of our mining rights amounted to HK$56.3 million, HK$60.4 million, HK$75.0 million and HK$73.7 million as at December 31, 2006, 2007, 2008 and June 30, 2009, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any outstanding derivative financial instruments, off-balance sheet guarantees or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

INFLATION

Inflation in China has not materially affected our results of operations. According to the PRC National Bureau of Statistics, the change in the consumer price index in China was 1.5%, 4.8% and 5.9% in 2006, 2007 and 2008, respectively.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to interest rate risks resulting from our long-term and short-term borrowings. We undertake borrowings for general corporate purposes and our expansion needs. Our borrowings are subject to both fixed rates and floating rates. Borrowings at fixed rates expose us to fair value interest rate risk and cash flow interest rate risk, respectively. Upward fluctuations in interest rates increase the cost of new borrowings and the interest costs of our outstanding borrowings. To cover our interest rate risk, we maintain a loan portfolio in a preferred fixed and floating interest rate mix. We do not currently have an interest rate hedging policy, but we review the mix of our borrowings regularly to monitor our interest rate exposure.

We have conducted a sensitivity analysis to determine our exposure to interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, our profit would have decreased/ increased by approximately HK$12.1 million, HK$17.4 million, HK$19.8 and HK$18.1 million for the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively.

The range of effective interest rates (which are also equal to contracted interest rates) on our Group's bank loans was 3.2% to 5.8%, 4.0% to 6.7%, 1.4% to 7.6% and 1.1% to 5.4% for the years ended December 31, 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. The terms of our borrowings are disclosed in note 33 to the Accountants' Report of the Company set forth in Appendix I to this document.

This analysis is prepared by using certain assumptions on a hypothetical situation. In reality, market interest rates would not change in isolation. In management's opinion, the analysis is used for reference purposes and should not be considered a projection of future profits or losses.

Credit Risk

Our maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at each respective year/period end in relation to each class of recognized financial assets is the carrying amount of those assets in the consolidated statements of financial position. In order to minimize the credit risk, our management has formulated a defined fixed credit policy and delegated a team responsible for the credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. We also review the receivable amount of each individual trade receivable regularly at each date of the consolidated statements of financial position to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our Group's credit risk on trade receivables is significantly reduced. Our Group is also exposed to credit risk in respect of guarantees given to banks or bank facilities granted to our fellow subsidiaries. In light of our fellow subsidiaries' good financial positions, our Directors consider such risk as insignificant. Our Group has no significant concentration of credit risk as our exposure is spread over a number of counterparties and customers.

Liquidity Risk

We are exposed to liquidity risk as we had net current liabilities as at December 31, 2006, 2007, 2008 and as at June 30, 2009. In order to manage our liquidity risk, we regularly monitor our operating cash flow and maintain sufficient reserves of cash to meet our short-term and long-term liquidity requirements. We also monitor our utilization of bank borrowings and ensure we comply with our loan obligations.

The following table sets forth our remaining contractual maturity for our financial liabilities. The table has been prepared to reflect the undiscounted cash flows of financial liabilities based on the earliest dates on which we are required to pay.

	Weighted average effective interest rate	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at December 31, 2006						
Trade payables	—	469,085	—	—	469,085	469,085
Other payables	—	246,973	—	—	246,973	246,973
Amounts due to minority shareholders of subsidiaries	—	5,892	—	—	5,892	5,892
Bank loans						
— Fixed rate	5.0	482,406	—	—	482,406	468,308
— Variable rate	5.2	1,431,425	595,827	618,415	2,645,667	2,419,557
		2,635,781	595,827	618,415	3,850,023	3,609,815
As at December 31, 2007						
Trade payables	—	586,930	—	—	586,930	586,930
Other payables	—	498,938	—	—	498,938	498,938
Bank loans						
— Fixed rate	5.6	70,054	—	—	70,054	69,407
— Variable rate	5.8	1,200,231	369,155	506,029	2,075,415	1,934,874
Amount due to immediate holding company	4.9	1,623,911	—	—	1,623,911	1,548,056
		3,980,064	369,155	506,029	4,855,248	4,638,205
As at December 31, 2008						
Trade payables	—	785,190	—	—	785,190	785,190
Other payables	—	508,483	—	—	508,483	508,483
Amounts due to a fellow subsidiary	—	10,916	—	—	10,916	10,916
Bank loans						
— Fixed rate	5.8	120,178	—	—	120,178	113,590
— Variable rate	3.5	2,850,851	912,961	984,343	4,748,155	4,383,985
		4,275,618	912,961	984,343	6,172,922	5,802,164
As at June 30, 2009						
Trade payables	—	726,002	—	—	726,002	726,002
Other payables	—	658,321	—	—	658,321	658,321
Bank loans						
— Fixed rate	1.7	924,207	—	—	924,207	907,418
— Variable rate	4.2	3,321,033	2,023,178	3,434,968	8,779,179	7,801,455
		5,629,563	2,023,178	3,434,968	11,087,709	10,093,196

Currency Risk

Our operating activities are primarily carried out in China, and our transactions are primarily denominated in Renminbi. We are exposed to currency risk attributable to the bank balances and bank loans which are denominated in the currencies other than the functional currency of the entity to which they relate. We do not have a foreign currency hedging policy in respect of foreign currency exposure. We have not used any forward contracts, currency borrowings or other means to hedge our foreign currency exposure, but we monitor our related currency exposure closely and will consider hedging significant currency exposure should the need arise.

The Renminbi is not a freely convertible currency and the conversion of the Renminbi into foreign currencies is subject to rules and regulations of foreign currency exchange control promulgated by the PRC Government. There has been an approximately 18.7% appreciation of the Renminbi against the US Dollar since the removal of the Renminbi's peg to the US Dollar on July 21, 2005. The Hong Kong Dollar is linked to the US Dollar and trades within a range of HK$7.75 to HK$7.85 per US Dollar. There remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the US Dollar and the Hong Kong Dollar.

Depreciation of the value of the Renminbi will increase the amount of our non-Renminbi debt service in Renminbi terms since we have to convert Renminbi into non-Renminbi currencies to service our Hong Kong Dollar debt. In addition, since our income and profits are denominated in Renminbi, any depreciation of the Renminbi will decrease the value of, and any dividends payable on, our Shares in foreign currency terms.

The following table sets forth our sensitivity analysis to a 5% increase or decrease in the Renminbi against the currencies indicated.

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit				
if RMB strengthens against HK$	5,875	5,158	14,944	19,213
if RMB strengthens against USD	—	—	—	(2,898)
if RMB strengthens against Euro	—	—	—	(1,635)
if RMB strengthens against JPY	—	—	953	—
Impact on other equity				
if RMB strengthens against HK$	—	—	81,027	101,498

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at year end for a 5% change in foreign currency rates. A positive or negative number above indicates an increase or a decrease in post-tax profit and other equity where the Renminbi strengthens 5% against the relevant currencies. For a 5% weakening of the RMB against the relevant currencies, there would be an equal and opposite impact on the post-tax profit and other equity.

DIVIDEND POLICY

We do not intend to distribute dividends in 2010. In the future, we may distribute dividends by way of cash or by other means that we consider appropriate. A decision to declare and pay any dividends would require the approval of the Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to our Shareholders' approval. The Board will review our dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid including our results of operations, financial condition and position, and other factors the Board may deem relevant.

PRC law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions, including HKFRS. PRC law also requires foreign-invested enterprises such as some of our subsidiaries in China, to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

RELATED PARTY TRANSACTIONS

The consideration for each of the related party transactions set out in note 49(a) of the Accountants' Report of the Company set forth in Appendix I to this document was determined by reference to market prices.

DISTRIBUTABLE RESERVES

Our distributable reserves consist of share premium and retained earnings. Under the Companies Law, the share premium account is distributable to shareholders if immediately following the date on which we propose to distribute the dividend, we will be in a position to pay our debts as they fall due in the ordinary course of business. As at June 30, 2009, our distributable reserves of the Company were HK$2,449.5 million.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

In accordance with the relevant rules and regulations, we have prepared the unaudited pro forma financial information of the Enlarged Group to illustrate how the proposed acquisitions of 29.3% and 34.14% equity interests in Hainan Cement by the Group might have affected the financial information of the Group. Please see Appendix III — "Unaudited Pro Forma Financial Information" to this document for more information.

The following table sets forth the unaudited pro forma net assets statements of the Enlarged Group as at June 30, 2009.

	The Group	Pro forma adjustment	Adjusted sub-total	Hainan Cement Group	Pro forma adjustments		Pro forma total for the Enlarged Group
	HK$'000 (Audited)	HK$'000 (Note a)	HK$'000	HK$'000 (Note b)	HK$'000 (Note c)	HK$'000 (Note d)	HK$'000
Non current assets							
Fixed assets	10,546,437	—	10,546,437	1,315,504	(1,712)	—	11,860,229
Prepaid lease payments	327,088	—	327,088	23,950	79,183	—	430,221
Investment properties	34,000	—	34,000	—	—	—	34,000
Intangible assets	136,513	—	136,513	23,292	167,871	—	327,676
Interests in associates	48	305,218	305,266	7,636	(305,218)	—	7,684
Deposits on acquisition of an associate	305,218	(305,218)	—	—	—	—	—
Deposits on acquisition of mining rights	—	—	—	19,123	—	—	19,123
Deposits on acquisition of fixed assets	79,895	—	79,895	2,090	—	—	81,985
Deferred tax assets	9,902	—	9,902	—	—	—	9,902
Long term receivables	161,092	—	161,092	—	—	—	161,092
	11,600,193	—	11,600,193	1,391,595	(59,876)	—	12,931,912
Current assets							
Inventories	527,986	—	527,986	99,528	—	—	627,514
Trade receivables	625,233	—	625,233	21,304	—	—	646,537
Other receivables	383,563	—	383,563	27,126	—	—	410,689
Taxation recoverable	4,920	—	4,920	—	—	—	4,920
Pledged bank deposits	1,164,903	—	1,164,903	9,895	—	—	1,174,798
Cash and bank balances	861,950	—	861,950	214,308	(377,392)	(271,431)	427,435
	3,568,555	—	3,568,555	372,161	(377,392)	(271,431)	3,291,893
Current liabilities							
Trade payables	726,002	—	726,002	53,390	—	—	779,392
Other payables	880,663	—	880,663	147,219	—	—	1,027,882
Provisions	3,856	—	3,856	—	—	—	3,856
Amount due to an equity holder of Hainan Cement	—	—	—	226,045	—	(226,045)	—
Taxation payable	12,133	—	12,133	41,905	—	—	54,038
Bank loans - amount due within one year	3,897,886	—	3,897,886	63,540	—	(45,386)	3,916,040
	5,520,540	—	5,520,540	532,099	—	(271,431)	5,781,208
Net current liabilities	(1,951,985)	—	(1,951,985)	(159,938)	(377,392)	—	(2,489,315)
Total assets less current liabilities	9,648,208	—	9,648,208	1,231,657	(437,268)	—	10,442,597
Non-current liabilities							
Bank loans - amount due after one year	4,810,987	—	4,810,987	475,414	—	—	5,286,401
Provisions	38,195	—	38,195	—	—	—	38,195
Deferred tax liabilities	33,169	—	33,169	—	20,304	—	53,473
	4,882,351	—	4,882,351	475,414	20,304	—	5,378,069
	4,765,857	—	4,765,857	756,243	(457,572)	—	5,064,528

Notes:

(a) The adjustment represents the reclassification of deposits on acquisition of an associate of HK$305,218,000 to interests in associates upon the completion of the acquisition of 29.3% equity interest in Hainan Cement.

(b) The adjustment represent the consolidation of the assets and liabilities of Hainan Cement Group as at June 30, 2009 by the Group upon completion of the further acquisition of 34.14% equity interest in Hainan Cement. The assets and liabilities of Hainan Cement Group as at June 30, 2009 are extracted from the Accountants' Report of Hainan Cement as set out in Appendix II to this document. Upon completion of the further acquisition of 34.14% equity interest in Hainan Cement, Hainan Cement becomes a 63.44% owned subsidiary of the Group.

(c) The adjustments represent (i) the payment of the consideration of HK$377,392,000 for the acquisition of further 34.14% equity interest in Hainan Cement; (ii) reclassification of the interest in an associate of HK$305,218,000 (see note a); (iii) the fair value adjustments made to the carrying amounts of fixed assets, prepaid lease payments and intangible assets of Hainan Cement Group as at June 30, 2009, being a decrease of HK$1,712,000, an increase of HK$79,183,000 and HK$3,747,000, respectively, and recognition of corresponding deferred tax adjustment of HK$20,304,000; and (iv) recognition of goodwill of HK$164,124,000 arising from the Acquisitions.

For the purpose of the purchase price allocation, the fair values of the fixed assets, prepaid lease payments and intangible assets of Hainan Cement Group as at June 30, 2009 were valued by DTZ Debenham Tie Leung Limited, an independent qualified professional valuer. Since the fair value of the identifiable assets (including fixed assets, prepaid lease payments and intangible assets) and liabilities of Hainan Cement at the date of completion of the Acquisitions may be substantially different from the fair values estimated by the valuer used in the preparation of this unaudited pro forma net assets statement of the Enlarged Group, the final fair values of the identifiable assets and liabilities of Hainan Cement Group, as well as goodwill and deferred taxation to be recognized in connection with the Acquisitions could be different from the estimated amounts stated herein.

(d) The adjustments represent (i) the assignment of the payable to an equity holder of Hainan Cement amounting to HK$226,045,000 to the Group; and (ii) the settlement of the bank loan of Hainan Cement amounting to HK$45,386,000 by the Group on behalf of Hainan Cement pursuant to the terms as stated in the sale and purchase agreement entered into by the Group and the vendor.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2009

We forecast that, on the basis of the assumptions set out in Appendix IV — "Profit Forecast" to this document and in the absence of unforeseen circumstances, our consolidated profit attributable to equity shareholders of our Group for the year ending December 31, 2009 will not be less than HK$1,000 million. The profit forecast has been prepared by our Directors based on the audited consolidated results of our Group for the six months ended June 30, 2009, as well as the consolidated results of our Group shown in the unaudited consolidated management accounts of our Group for the two months ended August 31, 2009 and the forecast of the consolidated results of our Group for the remaining four months ending December 31, 2009.

PROPERTY INTERESTS AND VALUATION ON PROPERTIES

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued interests of our properties in Hong Kong and China as at June 30, 2009 at HK$1,639.3 million. These property interests include land use rights. A summary of valuation and valuation certificates are set out in Appendix V to this document.

Our properties in Hong Kong and China were revalued at HK$1,400.9 million (properties with certificates) and HK$238.4 million (properties without certificates) as at June 30, 2009 by DTZ Debenham Tie Leung Limited. Details of the valuation are summarized in Appendix V to this document. There is a net revaluation surplus, representing the excess market value of the properties over their carrying value, approximately HK$247.1 million of which will not be included in our consolidated financial statements for the six months ended June 30, 2009. In accordance with our accounting policy, all properties are stated at cost less accumulated depreciation except for investment property which is measured at fair value.

Disclosure of the reconciliation of the property interests of our Group and the valuation of such property interests are set forth below.

	HK'000
Valuation of properties with certificates as at June 30, 2009 as set out in the Valuation Report included in Appendix V	1,400,898
Valuation of properties without certificates as at June 30, 2009 as set out in the Valuation Report included in Appendix V	238,391
	1,639,289
Carrying value of the following properties as at June 30, 2009	
— Properties	1,301,809
— Prepaid lease payments	335,018
— Investment property	34,000
	1,670,827
Less: Properties not subject to valuation	(624,141)
Add: Properties subject to valuation not included in land and buildings, prepaid lease payments and investment property	345,503
Carrying value of properties as at June 30, 2009 subject to valuation as set out in the Valuation Report included in Appendix V	1,392,189
Net revaluation surplus	247,100