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Web Proof Information Pack of



華潤水泥控股有限公司 China Resources Cement Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

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YOU SHOULD READ THE WARNING ON THE COVER OF THIS INFORMATION PACK

SUMMARY

You should consider carefully all the information set out in this document including the risks and uncertainties described below. Our business, results of operations, financial condition or prospects could be materially and adversely affected by any of these risks. The risks described below are those that we believe are material, but these may not be the only risks and uncertainties that we face. Additional risks we have not identified, or which we currently deem immaterial, may nevertheless have a material adverse effect on our business, results of operations or financial condition.

Overview

We are a leading cement and concrete producer in Southern China. We are the largest NSP cement and clinker producer in Southern China by production capacity according to the China Cement Net (中國水泥網)⁽¹⁾ and the second largest concrete producer in China by sales volume according to the China Concrete Website (中國混凝土網)⁽²⁾. 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 cement products are mainly sold in Guangdong, Guangxi and Fujian under the trademarks “華潤” (Huarun) and “紅水河” (Hongshuihe). The trademark “紅水河” (Hongshuihe) is mainly used for our products sold in Guangxi and was already being used by Hongshuihe Cement before it was acquired by our Company in 2003. We use the trademark “華潤” (Huarun) through a non-exclusive license granted by China Resources National Corporation, which we further sub-license to our subsidiaries in the PRC so as to enable our Group to use such trademark in the sale and production of our products in China, mainly in Guangdong, Guangxi and Fujian.

As at June 30, 2009, we had a total of 11 clinker production lines and 31 cement grinding lines. We believe we are one of the few cement producers in China to equip all of their clinker production lines with advanced NSP technology and residual heat recovery generators that recycle the heat generated during the clinker production process. Our clinker plants and cement grinding plants are located in Binyang, Pingnan, Guigang, Nanning and Fangchenggang in Guangxi, and Dongguan and Zhanjiang in Guangdong. Our clinker production facilities are strategically located close to our limestone quarries, which supply most of the limestone required for our clinker production. We also have 20 concrete batching plants currently in operation in Guangxi, Guangdong, Fujian and Hong Kong. After we re-acquired Redland Concrete on December 31, 2008, we added three concrete batching plants located in Hong Kong. One of the three batching plants is presently leased to an Independent Third Party. As at June 30, 2009, we had an annual production capacity of 22.5 million tons of cement, 15.7 million tons of clinker and 12.3 million cubic meters of concrete. We expect that our annual production capacity will reach 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.

Our principal products are cement, clinker and concrete. Our products are primarily used in the construction of high-rise buildings and infrastructure projects such as hydroelectric power stations, dams, bridges, ports, airports and roads. Our customers include infrastructure construction companies, PRC and Hong Kong Government entities and property developers in China and Hong Kong. Our products have been used in a number of high-profile and large scale projects in China, including the Guangzhou-Shenzhen-Hong Kong Express Railway (廣深港高速鐵路), Guanghe Expressway (廣賀高速公路), Guiwu Expressway (桂梧高速公路), Guangwu Expressway (廣梧高速公路), Guangzhu Railway (廣珠城際軌道) and Wuguang Express Railway (武廣高速鐵路).

⁽¹⁾ According to a report by the China Cement Net issued on July 28, 2009. China Cement Net is an independent website that provides cement industry information.

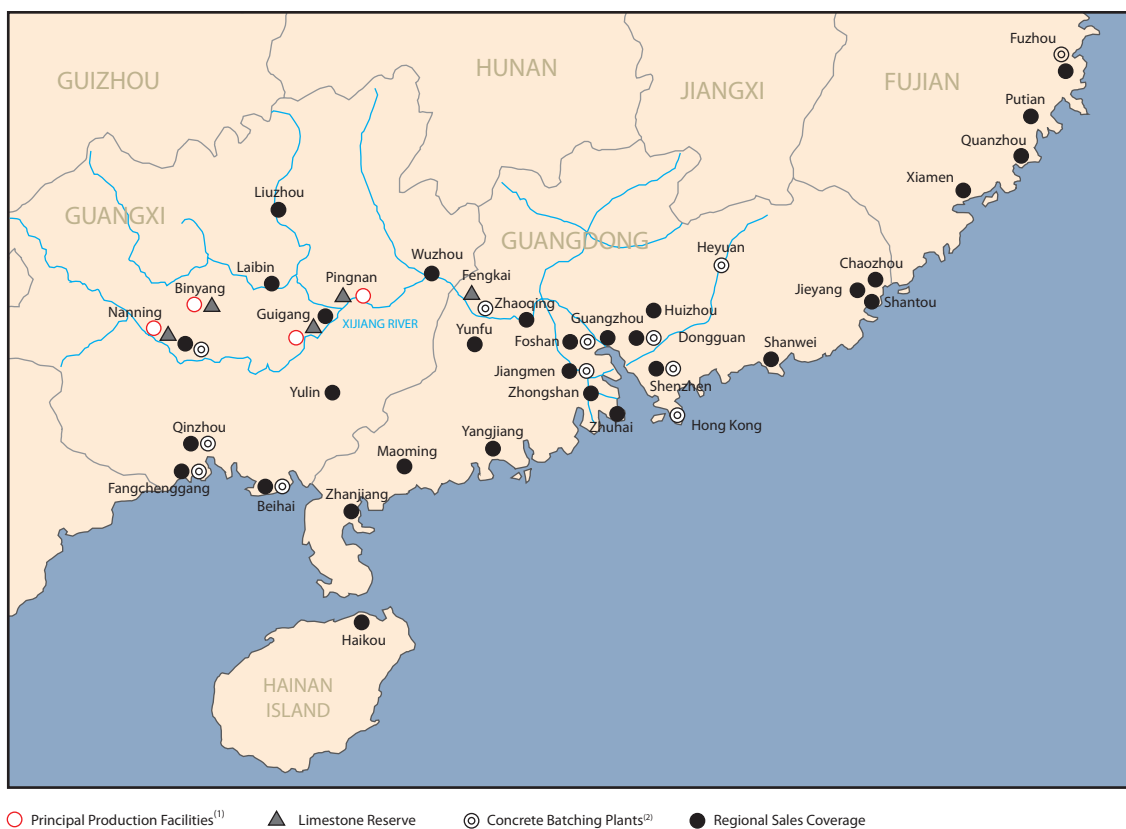
⁽²⁾ China Concrete Website is an independent website that provides concrete industry information.

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We sell most of our products directly to end users through our extensive sales network, and the remainder of our products through distributors. As at the Latest Practicable Date, we have 18 regional sales offices covering 31 cities in Southern China.

In 2008, we sold 13.2 million tons of cement, 1.3 million tons of clinker and 5.6 million cubic meters of concrete. Our turnover from continuing operations was HK\$2,111.7 million, HK\$3,743.2 million and HK\$5,781.3 million in 2006, 2007 and 2008, respectively, representing a CAGR of 65.5%. Our net profit from continuing operations for the same periods was HK\$82.6 million, HK\$358.8 million and HK\$783.7 million, respectively, 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.

Our principal production facilities, limestone quarries, concrete batching plants and regional sales offices are located in the following locations:



⁽¹⁾ Our principal production facilities are located in Pingnan, Binyang, Guigang and Nanning where there are five clinker production lines and nine cement grinding lines in Pingnan, two clinker production lines and six cement grinding lines in Binyang, two clinker production lines and four cement grinding lines in Guigang, two clinker production lines and four cement grinding lines in Nanning. In addition, we have three cement grinding lines in Dongguan, three cement grinding lines in Zhanjiang and two cement grinding lines in Fangchenggang.

⁽²⁾ In terms of our 20 concrete batching plants, we have two in Dongguan, two in Foshan, two in Jiangmen, four in Nanning, one in each of Beihai, Fangchenggang, Fengkai, Fuzhou, Heyuan, Qinzhou and Shenzhen and three in Hong Kong.

Our Competitive Strengths

- We have a strong market position as a leading cement and concrete producer in Southern China.
- We are well positioned to capture growth opportunities in the construction industry in Southern China.

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- We benefit from convenient access to limestone quarries and transportation channels as well as an extensive sales network.
- We believe we are one of the few cement producers in China to equip all of their clinker production lines with advanced NSP technology and residual heat recovery generators that recycle the heat generated during the clinker production process.
- We have convenient access to high quality limestone resources.
- We have a stable and experienced management team.

Our Strategies

- Strengthen our leading position through capacity expansion in selected markets.
- Continue to improve our transportation and logistics network.
- Continue to develop our sales and marketing capability for our cement operations and strengthen our distribution network.
- Continue to improve our operational efficiency.
- Continue to source high quality limestone resources.

Our Utilization Rates and Expansion Plans

The table below sets forth the number of production lines, pro-rated production capacity, production volume, and utilization rates by product categories.

	Year ended			Six Months ended
	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
Cement				
Number of Cement Production Lines	22	23	25	31
Pro-rated Production Capacity ('000 tons)	9,274.0	13,153.5	16,374.0	8,782.8
Production Volume ('000 tons)	6,303.6	9,673.5	14,070.5	7,456.4
Utilization Rate (%)	68.0	73.5	85.9	84.9
Clinker				
Number of Clinker Production Lines	6	7	8	11
Pro-rated Production Capacity ('000 tons)	6,076.0	8,354.5	10,937.8	6,308.5
Production Volume ('000 tons)	6,476.4	9,093.7	12,632.0	7,574.6
Utilization Rate (%)	106.6	108.8	115.5	120.1
Concrete				
Number of Batching Plants	10	16	19	20
Pro-rated Production Capacity ('000 m ³)	4,850.0	7,525.0	10,225.0	6,050.0
Production Volume ('000 m ³)	2,951.7	4,707.8	5,552.2	2,456.5
Utilization Rate (%)	60.9	62.6	54.3	40.6

The pro-rated capacity does not represent the actual annualized production capacity. For cement and clinker, the pro-rated production capacity is calculated based on the designed production capacity of each production line per day multiplied by 310 days per year or 155 days per six months. For concrete, the pro-rated production capacity is calculated based on the designed production capacity of each production line per load multiplied by operating hours per day (eight hours) divided by the estimated time per load multiplied by 310 days per year or 155 days per six months. For the pro-rated production capacity of our batching plants for the year ended December 31, 2008, we have included the January and February 2008 concrete production capacity of Redland Concrete into our calculation as we disposed of Redland Concrete in March 2008 but re-acquired it in December 2008.

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We 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.

Our clinker production facilities operated at above their designed production capacities in 2006 through 2008. The utilization rate for our cement production facilities also increased from 68.0% in 2006 to 85.9% in 2008. The utilization rate of our cement production facilities was 84.9% for the six months ended June 30, 2009. During the same period, the utilization rate of concrete production facilities ranged from approximately 40.6% to 60.9%. The utilization rate reflects our corporate strategies and a common practice in concrete industry in PRC: (1) our strategy is to expand into new markets when we identify suitable opportunities, and develop cement and concrete capacities to capture increasing market demand in various regions. As we establish and develop our presence in the new markets, some of our facilities will not be operating at their optimal capacity. We believe that it is reasonable to continue to adopt this expansion strategy for our business, as the demand for, and sales of our cement and concrete products steadily increased during the Track Record Period; (2) in designing the capacity of our cement production lines, we usually include a buffer capacity that enables us to respond to any increase in utilization in our production lines and demand for our cement products; (3) utilization rate of concrete production is generally low across the industry in the PRC given the nature of the concrete business. The production capacity for a facility is generally calculated on the basis of eight operational hours per day, however, the actual operational hours is shorter than eight hours due to the limitation imposed by local governmental authorities as well as downtime spent for cleaning the facilities. Thus, our Directors are of the opinion that the utilization rates of our cement and concrete production facilities were reasonable during the Track Record Period.

Our Directors have taken into consideration the recent global and PRC financial performance, situation and development, and they are of the view that our expansion plan is justified because:

- our clinker production was operating above capacity and our cement production was operating at a utilization rate of 85.9% for the period ended December 31, 2008;
- our Directors believe the demand for our products will continue to rise in the regions where our Group operates due to the factors disclosed in the section headed "Industry Overview" of this document. According to the National Bureau of Statistics of China, the GDP of Guangdong and Guangxi grew at a CAGR of 17.2% and 21.9% from 2006 to 2008, respectively. During the same period, the FAI of Guangdong and Guangxi grew at a CAGR of 17.4% and 29.7%, respectively. Guangdong's GDP in 2008 was RMB3.6 trillion, representing an increase of 16.1% over 2007. Guangdong's FAI was RMB1.1 trillion in 2008, representing a 16.5% increase over 2007. Guangxi's GDP for 2008 was RMB717.2 billion, representing an increase of 20.4% over 2007. Guangxi's FAI for 2008 was approximately RMB377.8 billion, representing an increase of 29.1% over 2007;
- the increase in the size of the cement industry in Guangdong and Guangxi also shows the industry believes that the growing demand warranted expansion. Guangdong's cement industry increased volume of cement production from 88.5 million tons in 2006 to 97.8 million tons in 2007. For 2008, Guangdong's cement industry produced 94.8 million tons of cement, only a slight decrease from 2007. Guangxi's cement industry increased volume of cement production from 36.6 million tons in 2006 to 43.5 million tons in 2007. For 2008, Guangxi's cement industry produced 51.9 million tons of cement, representing an increase of 19.3% over the same period of the previous year;
- our Directors believe the economic growth in China and the markets where we operate will continue to create a number of opportunities for new construction projects which in turn will create greater demand for our products. As at July 2009, the International Monetary Fund's estimates for China's economic growth in 2009 was approximately 7.5% and 8.5% in 2010. In addition, for the first six months of 2009, property sales rose 53.0% as compared to the corresponding period in 2008, and

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real estate investment growth was 9.9% for such period in 2009. Continued strength in the real estate sector may lead to investment in construction, which would spur demand for cement and concrete;

- according to the China Cement Association, NSP technology accounted for approximately 62.9% of the 1,400 million tons of cement produced in the PRC in 2008. Together with the PRC's government policies to outlaw the use of vertical kilns, our Directors believe the demand for our NSP products will continue to grow; and
- our Directors believe the PRC Government's Eleventh Five-Year Plan to implement major infrastructure and development projects between 2006 and 2010 will further increase the demand for our products. Moreover, the PRC Government has recently introduced measures to moderate the effects of the global economic downturn on the PRC's economy which could benefit the real estate and construction sectors. Such measures have included a RMB4 trillion general stimulus plan that includes initiatives to promote infrastructure development, tax breaks for home buyers, lower down-payment requirements for home purchases and a RMB400 billion package for building affordable homes.

Please see the section headed "Financial Information — Recent Economic Situation" of this document for more information.

Summary of History and Background

Our Company was incorporated in the Cayman Islands on March 13, 2003 for the purpose of becoming the listed holding company of China Resources Holdings' cement and concrete operations. On March 26, 2003, our Company entered into a conditional agreement with China Resources Holdings to acquire its 100% indirect equity interests in Hongshuihe Cement, Dongguan Cement, Dongguan Concrete and Shenzhen Concrete. Our Company, which held the interest of cement and concrete interests of China Resources Holdings, was listed on the main board of the Hong Kong Stock Exchange on July 29, 2003. The listing was through an introduction so that no funds were raised by our Company as part of the listing. China Resources Holdings was the controlling shareholder of our Company throughout the period during which it was listed on the Hong Kong Stock Exchange. Our Company has expanded through organic growth and acquisitions, notably Pingnan Cement.

From 2004 to 2005, the conditions in the building materials sectors in China had changed significantly due principally to measures taken by the PRC Government to curb excessive FAI and the substantial increase in production and distribution costs due principally to sharply increased coal and oil prices. This resulted in pressure on the prices of our products in 2006.

In addition, our shares were trading at a significant discount to their underlying adjusted net asset value per share. The discounts ranged from 25.9% to 58.0% from March 2004 to March 2006 and the trading volume remained low during the same period. The price performance of our shares had been recording a general downward trend from April 29, 2004 to March 28, 2006, during which the price declined from HK\$2.30 to HK\$1.81.

Our then Directors were concerned about our continuing business development. In 2005, our Company intended to expand its annual production capacity for cement and concrete to 15 million tons and 10 million cubic meters by 2008, respectively. At that time, our management estimated we would require new capital of approximately HK\$2 billion to finance this expansion plan. In circumstances where it was not possible to raise significant funds from the capital markets at the time (except for the issuance of an aggregate principal amount of HK\$800 million of convertible bonds which were substantially purchased by China Resources Holdings in 2005) and in view of keen competition and cost pressures in the construction materials sector, our then Directors

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believed that our continued expansion during difficult trading conditions was best carried out as a private company.

As a result, China Resources Holdings, through its wholly-owned subsidiary, Smooth Concept, requested the then Board to put forward to the then Shareholders a proposal regarding the privatization and the withdrawal of our listing on March 29, 2006.

The privatization in 2006 involved a scheme of arrangement, a convertible bond offer and an option lapsing payment as described in the section headed “History and Reorganization” of this document.

We did not raise any new capital by way of our previous listing by introduction in 2003. While the financial crisis continues to contribute to increased volatility and diminished expectations for the global economy and the financial market moving forward, the International Monetary Fund’s estimate of China’s economic growth in 2009 was 7.5% (as at July 2009), which was much higher than its estimate for the contraction of the global economy of 1.4%. Our Directors believe the growth in our business, our financial performance in the past few years, the estimated potential growth of the PRC economy, our use of environmentally production technology and the PRC Government’s effort to move the economic growth on to a more socially and environmentally sustainable path in the long run present favorable conditions for us to raise equity capital from capital markets to increase our operation scale to meet the increase in demand for our products. On August 31, 2009, Smooth Concept injected an additional HK\$1 billion into our Company in exchange for 4 billion Shares issued by us. We plan to use the new capital to finance our expansion plans in Fujian and Hainan provinces.

Details of the privatization and other corporate developments since the privatization are set out in the section headed “History and Reorganization” of this document.

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Summary of Historical Financial Information

The following tables set forth, for the periods indicated, the selected financial data from our consolidated financial information. For more detailed information, please see the “Accountants’ Report of the Company” in Appendix I to this document.

Consolidated Statements of Comprehensive Income

	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
Attributable to:					
Equity holders of the Company	81,954	360,253	760,924	530,353	365,663
Minority interests	(1,904)	674	22,823	6,254	3,943
	80,050	360,927	783,747	536,607	369,606
Earning per share					
— Basic	14.6 cents	46.1 cents	97.3 cents	67.8 cents	46.8 cents
— Diluted	14.3 cents	N/A	N/A	N/A	N/A

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Cash Flow

	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 year/ period, representing cash and bank balances	<u>229,976</u>	<u>339,013</u>	<u>363,889</u>	<u>328,144</u>	<u>861,950</u>

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Consolidated Statements of Financial Positions

	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
Non current assets				
Fixed assets	4,077,315	5,422,105	8,124,263	10,546,437
Prepaid lease payments	147,154	182,648	293,401	327,088
Investment properties	87,683	93,966	35,000	34,000
Intangible assets	101,369	113,724	137,807	136,513
Interest in an associate	54	49	48	48
Deposits for acquisition of an associate	—	—	—	305,218
Deposits for acquisition of fixed assets	89,160	26,326	73,025	79,895
Deferred tax assets	24,132	8,831	9,616	9,902
Long term receivables	—	—	118,916	161,092
Total non current assets	<u>4,526,867</u>	<u>5,847,649</u>	<u>8,792,076</u>	<u>11,600,193</u>
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 and other receivables	828,265	896,664	954,820	1,008,796
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	<u>1,482,296</u>	<u>1,774,141</u>	<u>1,901,384</u>	<u>3,568,555</u>
Total assets	<u>6,009,163</u>	<u>7,621,790</u>	<u>10,693,460</u>	<u>15,168,748</u>
Current liabilities				
Trade and other payables	861,689	1,250,319	1,674,425	1,606,665
Provisions	3,349	3,959	3,861	3,865
Amounts due to immediate holding company	—	1,548,056	—	—
Amounts due to 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 — amount 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	<u>2,686,865</u>	<u>3,995,437</u>	<u>4,533,701</u>	<u>5,520,540</u>
Net current liabilities	<u>(1,204,569)</u>	<u>(2,221,296)</u>	<u>(2,632,317)</u>	<u>(1,951,985)</u>
Non current liabilities				
Bank loans — amount due after one year	1,081,426	818,647	1,686,812	4,810,987
Provisions	46,186	44,916	40,588	38,195
Deferred tax liabilities	43,212	39,457	31,115	33,169
Total non current liabilities	<u>1,170,824</u>	<u>903,020</u>	<u>1,758,515</u>	<u>4,882,351</u>
Total liabilities	<u>3,857,689</u>	<u>4,898,457</u>	<u>6,292,216</u>	<u>10,402,891</u>
Equity attributable to equity holders of the Company	2,120,331	2,695,464	4,366,597	4,727,228
Minority interests	31,143	27,869	34,647	38,629
Total equity	<u>2,151,474</u>	<u>2,723,333</u>	<u>4,401,244</u>	<u>4,765,857</u>

SUMMARY

Profit Forecast for the Year Ending December 31, 2009

Forecasted consolidated profit attributable to
 our equity holders ^(Note) not less than HK\$1,000.0 million
 (equivalent to approximately US\$129.0 million)

Note: The bases and assumptions on which the above profit forecast for the year ending December 31, 2009 has been prepared are set out in Appendix IV — “Profit Forecast” to this document.

Dividend Policy

We do not intend to distribute dividends in 2010. 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 their discretion. In addition, any final dividend for a financial year will be subject to 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 laws require 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 the HKFRS. PRC laws also require 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.

Risk Factors

We believe that there are certain risks involved in our operations, many of which are beyond our control. These risks are set out in the section headed “Risk Factors” in this document and are summarized below:

Risks Relating to our Business

- We may not be able to continue grow at a rate comparable to our historical growth rates, or we may have difficulty managing any future growth.
- Our business depends significantly on the market conditions in the construction industry in China and Hong Kong.
- The current global market fluctuations and economic downturn could materially and adversely affect our business, results of operations and financial condition.
- We rely heavily on the Xijiang River to transport coal to our production sites and our finished products to our customers; any interruption to this means of transportation could disrupt or delay our production schedule and our delivery to our customers.
- Our business and results of operations may be adversely affected by increases in coal or electricity prices or shortages of coal and electricity supplies.

SUMMARY

- The prices of raw materials may continue to rise, and we may be unable to pass on some or all of the increases to our customers.
- We cannot assure you that we will be able to renew our existing mining rights, or secure additional mining rights.
- We recorded net current liabilities during the Track Record Period, and we may continue to maintain a net current liabilities position in the future, which may adversely affect our liquidity.
- We are highly leveraged, and our business, results of operations and financial condition could be materially and adversely affected by our indebtedness.
- Our business depends on our ability to manage our working capital successfully.
- Fluctuations in the exchange rate of the Renminbi against the Hong Kong Dollar will have an effect on our potential exchange gain or loss, finance cost, depreciation expense, other comprehensive income and profitability.
- Exchange rate fluctuations of the Renminbi may affect our results of operations.
- We rely on our network of distributors, and to the extent that any distributor for any particular market ceases to cooperate with us for any reason, we may lose significant business in that market.
- We do not possess valid legal title or the right to lease with respect to certain properties that we occupy.
- Our controlling shareholder has significant influence over our management, and the interests of our controlling shareholder may not be aligned with our interests or the interests of other shareholders.
- Our business depends substantially on the continuing efforts of our executive directors, senior management, key personnel, and our ability to maintain a skilled labor force.
- Any failure to maintain an effective quality control system at our production facilities could have a material and adverse effect on our business, results of operations and financial condition.
- We have limited insurance coverage and may be subject to liabilities resulting from potential operation risks and losses that may not be covered by our insurance policies.
- Any unauthorized use or tarnishment of our brand names, trademarks and other intellectual property rights may materially and adversely affect our business, results of operations and financial condition.
- Any significant product liability claims made against us, whether successful or not, could harm our business, results of operations and financial condition.
- We rely principally on dividends and other distributions paid by our subsidiaries, and limitations on their ability to pay dividends to us could have a material adverse effect on our business, results of operations and financial condition.
- We currently enjoy certain PRC Government incentives. Expiration of, or changes to, these incentives could materially and adversely affect our business, results of operations and financial condition.
- Our operating results may fluctuate significantly as a result of some factors beyond our control.

SUMMARY

- Compliance with environmental regulations can be expensive, and any failure to comply with these regulations could result in adverse publicity, potential significant monetary damages and fines and suspension of our business operations.
- We are subject to safety and health laws and regulations in China, and any failure to comply could adversely affect our operations.

Risks Relating to the Cement and Concrete Industries in China and Hong Kong

- The cement industry is highly capital intensive, and our future growth depends to a large extent on our ability to obtain external financing.
- We face intense competition in the cement and concrete industries, which may reduce demand for our products.
- Our results of operations are subject to seasonal changes in demand for our cement and concrete products.
- The cement and concrete industries are subject to significant regulation by the PRC and Hong Kong Governments.

Risks Relating to China

- Any slowdown in the PRC economy or changes in political and economic policies of the PRC Government could have an adverse effect on the overall growth in China, which could reduce the demand for our products and materially and adversely affect our business, results of operations and financial condition.
- Uncertainties with respect to the PRC legal system could have a material adverse effect on us.
- PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from making additional capital contributions or loans to our PRC subsidiaries.
- We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income.
- We may be subject to fines and penalties under the new PRC Labor Law, and our labor costs may increase.
- Government control over currency conversion may limit our ability to utilize our cash effectively.
- Our results of operations may be adversely affected by the occurrence of an epidemic.

Other Risks

- Certain facts and other statistics with respect to China, the PRC economy and the PRC cement and concrete industries in this document are derived from various official government sources and third party sources and may not be reliable.
- You should read this entire document carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us.

DEFINITIONS

In this document, unless the context otherwise requires, the following terms shall have the meanings set forth below. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this document.

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with a specified person
“Articles” or “Articles of Association”	the articles of association of our Company, adopted on September 2, 2009 and as amended from time to time
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of directors of our Company
“business day”	any day (excluding Saturday, Sunday or public holidays) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Clear Bright”	Clear Bright Investments Limited (晴朗投資有限公司), a company incorporated in the BVI on January 8, 2003 with limited liability and a wholly-owned subsidiary of our Company
“China Resources Holdings”	China Resources (Holdings) Company Limited (華潤(集團)有限公司), a state-owned company incorporated in Hong Kong on July 8, 1983 with limited liability and the controlling shareholder of our Company
“China Resources Holdings Group”	China Resources Holdings and its subsidiaries
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time
“Company” or “our Company”	China Resources Cement Holdings Limited (華潤水泥控股有限公司), a limited liability company incorporated on March 13, 2003 in the Cayman Islands
“CR Gas”	China Resources Gas Group Limited (華潤燃氣控股有限公司) (stock code 01193), a limited liability company incorporated in Bermuda and a subsidiary of China Resources Holdings. Its shares are listed on the Main Board of the Hong Kong Stock Exchange. Its immediate former name is China Resources Logic Limited
“CR Gas Group”	CR Gas and its subsidiaries

DEFINITIONS

“CR Metals & Minerals”	China Resources Metals & Minerals Company Limited (華潤五金礦產有限公司), a company incorporated in Hong Kong with limited liability on September 16, 1983 and an indirect wholly-owned subsidiary of China Resources Holdings
“CRC Investments”	China Resources Cement Investments Limited (華潤水泥投資有限公司), a limited liability company incorporated in the PRC on July 18, 2004 and a wholly-owned subsidiary of our Company
“CRCEG Shenzhen Enterprises”	China Railway Construction Engineering Group Shenzhen Enterprises Company Limited (中鐵建廠工程局深圳實業公司), a state-owned enterprise of the PRC
“CRH Group”	China Resources Holdings and its subsidiaries (excluding our Group)
“CR Precast”	China Resources Precast Concrete Limited, a limited liability company incorporated on December 14, 2005 in the BVI
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	one or all of the director(s) of our Company
“Dongguan Cement”	Dongguan Huarun Cement Manufactory Co., Ltd. (東莞華潤水泥廠有限公司), a sino foreign equity joint venture established on May 23, 1994 in the PRC and a wholly-owned subsidiary of our Company
“Dongguan Concrete”	China Resources Concrete (Dongguan) Company Limited (東莞華潤混凝土有限公司), a limited liability company incorporated on June 24, 2002 in the PRC and a wholly-owned subsidiary of our Company
“Dongguan Metals & Minerals”	Dongguan Metals and Minerals Import and Export Ltd. (廣東省東莞五金礦產進出口有限公司), an Independent Third Party
“Enlarged Group”	the hypothetical entity created to demonstrate the effect of the acquisition of an aggregate of 63.44% equity interest in Hainan Cement by our Group
“Fangchenggang Cement”	China Resources Cement (Fangchenggang) Limited (華潤水泥(防城港)有限公司), a limited liability company incorporated on December 16, 2005 in the PRC and a wholly-owned subsidiary of our Company
“Flavour Glory”	Flavour Glory Limited, a limited liability company incorporated in the BVI on January 2, 2003 and a wholly-owned subsidiary of our Company
“Fuchuan Cement”	China Resources Cement (Fuchuan) Limited (華潤水泥(富川)有限公司), a wholly foreign owned enterprise established on May 9, 2008 in the PRC and a wholly-owned subsidiary of our Company

DEFINITIONS

“Group,” “our Group,” “we” or “us”	our Company and its subsidiaries
“Guangxi”	the Guangxi Zhuang Autonomous Region of the PRC
“Guigang Cement”	China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司), a limited liability company incorporated in the PRC on January 12, 2004 and a wholly-owned subsidiary of our Company
“Guo Tou”	SDIC Assets Management Co. (國投資產管理有限公司), a wholly-owned subsidiary of the State Development & Investment Corporation (國家開發投資公司)
“Hainan Cement”	SDIC Hainan Cement Co., Ltd. (國投海南水泥有限責任公司), a limited liability company incorporated in the PRC on July 31, 1997
“HK\$,” “Hong Kong Dollars” or “HK Dollars”	Hong Kong Dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards, which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and their interpretation issued by the Hong Kong Institute of Certified Public Accountants
“HKICPA”	the Hong Kong Institute of Certified Public Accountants
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hongshuihe Cement”	Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司), a sino foreign equity joint venture established on December 24, 2001 in the PRC and a 70%-owned subsidiary of our Company
“Independent Third Party(ies)”	party(ies) which is/are independent of and not connected with any of our Directors, chief executives, substantial shareholders of our Company or any of its subsidiaries or any of their associates
“Latest Practicable Date”	September 11, 2009, being the latest practicable date prior to the printing of this document for ascertaining certain information contained in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended from time to time
“Main Board”	the stock exchange operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market

DEFINITIONS

“Memorandum”	the amended and restated memorandum of association of our Company adopted on September 2, 2009, as amended from time to time
“MEP”	Ministry of Environmental Protection of the PRC (中國環境保護部), formerly known as SAEP
“Minmetals Holdings”	China Resources Machinery and Minmetals (Holdings) Co., Limited (華潤機械五礦(集團)有限公司), a company incorporated in Hong Kong with limited liability on September 19, 1997 and a wholly-owned subsidiary of China Resources Holdings
“MOFCOM”	the Ministry of Commerce of the PRC (中國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)
“Nanning Cement”	China Resources Cement (Nanning) Limited (華潤水泥(南寧)有限公司), a limited liability company incorporated in the PRC on November 9, 2004 and a wholly-owned subsidiary of our Company
“National People’s Congress”	the National People’s Congress of the PRC (全國人民代表大會), the legislative apparatus of the PRC
“NDRC”	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會), a macroeconomic management agency under the State Council, which studies and formulates policies for economic and social development, maintains a balance of economic aggregates and guides the restructuring of the overall economic system
“New M&A Rules”	the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) promulgated on August 8, 2006 by MOFCOM, SASAC, State Administration of Taxation, CSRC, SAIC and SAFE and effective on September 8, 2006
“Nomination Committee”	the nomination committee of our Board
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of the PRC
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day’s China interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets
“Pingnan Cement”	China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司), a limited liability company incorporated in the PRC on November 4, 2003 and a non-wholly-owned subsidiary of our Company

DEFINITIONS

“PRC” or “China”	the People’s Republic of China, which for the purposes of this document, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC EIT law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), promulgated on March 16, 2007 by the National People’s Congress and effective on January 1, 2008
“PRC GAAP”	the generally accepted accounting principles of the PRC
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Labor Law”	the Labor Contract Law (中華人民共和國勞動合同法) promulgated by the Standing Committee of the National People’s Congress on June 29, 2007 and became effective on January 1, 2008
“Redland Concrete”	Redland Concrete Limited, a company incorporated in Hong Kong with limited liability on February 28, 1986 and a wholly-owned subsidiary of our Company. Redland Concrete was disposed of by our Group in December 2007 and was re-acquired by our Group from CR Gas on December 31, 2008
“Redland Concrete Group”	Redland Concrete and its subsidiaries
“Redland Precast”	Redland Precast Concrete Products Limited, a company incorporated in Hong Kong with limited liability on July 25, 1991 and an indirect wholly-owned subsidiary of China Resources Holdings
“Remuneration Committee”	the remuneration committee of our Board
“Reorganization”	the reorganization of our Group, details of which are set out in the section headed “History and Reorganization” in this document
“Rich Team”	Rich Team Resources Limited, a company incorporated in the BVI with limited liability on October 30, 2007 and a wholly-owned subsidiary of our Company since December 31, 2008. The entire equity issued share capital of Rich Team Resources Limited was acquired by us on December 31, 2008.
“Rich Team Group”	Rich Team and its subsidiaries. The Rich Team Group includes the Redland Concrete Group
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of China
“SAEP”	the PRC State Administration for Environmental Protection (中國國家環保總局)

DEFINITIONS

“SAFE”	the PRC State Administration of Foreign Exchange (中國國家外匯管理局)
“SAIC”	the PRC State Administration for Industry and Commerce (中國國家工商行政管理總局)
“SAPS”	the PRC State Administration of Production Safety (中國國家安全生產監督管理總局)
“SASAC”	the State-owned Assets Supervision and Administration Commission of the PRC State Council (中國國務院國有資產監督管理委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
“Shangsi Cement”	China Resources Cement (Shangsi) Limited (華潤水泥(上思)有限公司), a wholly foreign owned enterprise established on January 15, 2008 in the PRC and a wholly-owned subsidiary of our Company
“Share(s)”	our ordinary share(s) of nominal value of HK\$0.10 each
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen Concrete”	China Resources Concrete (Shenzhen) Company Limited (深圳華潤混凝土有限公司), a limited liability company incorporated in the PRC on March 26, 2002 and a wholly-owned subsidiary of our Company
“Smooth Concept”	Smooth Concept Investments Limited, a company incorporated with limited liability in the BVI on February 13, 2006 and an approximate 99.9%-owned subsidiary of China Resources Holdings
“Southern China”	Guangxi, Guangdong, Fujian and Hainan
“State Administration of Taxation”	the PRC State Administration of Taxation (中國國家稅務總局)
“State Council”	the PRC State Council (中國國務院)
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	the financial years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009
“United States” or “U.S.” or “US”	the United States of America
“US\$” or “US Dollars”	United States Dollars, the lawful currency of the United States

DEFINITIONS

“WFOE(s)”	wholly-foreign owned enterprise(s) in the PRC
“Zhanjiang Hongshuihe Cement”	Zhanjiang China Resources Hongshuihe Cement Company Limited (湛江華潤紅水河水泥有限公司), a limited liability company incorporated in the PRC on March 3, 2003 and a wholly-owned subsidiary of our Company

The terms “associate,” “connected person,” “connected transaction,” “subsidiary,” “controlling shareholder” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

In this document, if there is any inconsistency between the Chinese names of the entities or enterprises established in China, the PRC nationals, departments, certificates, laws and regulations and their English translations, the Chinese names shall prevail. English translations of company names in Chinese or another language and Chinese translations of company names in English are for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this document as they relate to our business. As such, these terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

"aggregates"	a mixture which generally consists of gravel or crushed stone, that is used as a principal raw material for concrete
"blast-furnace slag"	a by-product from the production of steel, which is used as inherent hydraulic materials when mixed with Portland Cement
"blended cement"	a kind of hydraulic cement which is used in combination with local pozzolana materials and blast-furnace slag, which can be used alone or with other Portland Cement products in the construction industry
"CAGR"	compound annual growth rate
"cement"	a mixture of clinker, clay, silica and gypsum. It is a fine powder which sets to a hard mass when mixed with water as a result of hydration. The term "cement" generally refers to "hydraulic cement"
"clinker"	grayish-black pellets predominantly the size of marbles, which is a main ingredient in Portland Cement and produced largely from limestone, clay and a variety of minerals and iron oxide at high temperatures which consists primarily of hydraulic calcium silicates
"clay"	a natural mineral having plastic properties and composed of very fine particles, moldable when wet and fused into permanent form at very high temperatures
"Composite Portland Cement"	a kind of Portland Cement with two or more different kinds of inter-related additives and of lower compressive strength, which is mainly used for construction projects which require low quality concrete, such as small buildings and farm houses
"concrete"	a mixture of aggregates, river sands, cements and water that will harden because of cement's hydration, generally used in the construction industry
"dwt"	the gross weight in tons of vessels that a berth is capable of undertaking expressed in weight tons, reflecting the loading capacity of a vessel
"FAI"	fixed asset investment
"fly ash"	the ash by-product of burning coal in thermal power plants, which is used as inherent hydraulic materials when mixed with Portland Cement

GLOSSARY OF TECHNICAL TERMS

"GDP"	gross domestic product
"gypsum"	a mineral consisting of hydrous calcium sulphate that is used as a set-controlling agent when added to soil amendment and in making plaster of paris
"hydration"	a process occurring when water is added to Portland Cement to form hydraulic cement paste, which will generally take place within a period of time that will make the hydraulic cement paste becomes harder and stronger
"hydraulic cement"	a generic term that includes Portland Cement and other blended cement for specific applications. All hydraulic cement sets and hardens by reacting chemically with water
"limestone"	a sedimentary rock, mainly composed of mineral calcite
"mortar"	a paste formed by the mixture of cement, water and fine aggregate, used for binding construction blocks together or as plaster
"mpa"	megapascal (one million pascals), a unit of pressure equal to 145.04 pound-force per square inch
"NSP"	a new suspension preheater dry process under which the raw materials of cement are preheated and disintegrated before being fed into a rotary kiln where they are chemically changed into clinker
"on-site batching"	a process in which cement, a cement silo and machinery are transported to the construction site in order to mix and form concrete on demand at the relevant construction site. On-site batching can compromise the quality of the concrete produced since it can be cost-prohibitive to move state-of-the-art production and quality inspection equipment to the relevant construction site. On-site batching can be wasteful and less environmentally friendly since 5% of the cement transported becomes dust during the initial packing in, and subsequent unpacking from, paper or plastic bags. Paper or plastic bag manufacturing and disposal creates unnecessary waste
"Ordinary Portland Cement"	a kind of Portland Cement, which hardens quickly and develops a relatively strong initial compressive strength. It is often used for building works which have to be completed within a short period of time
"Portland Cement"	a kind of hydraulic cement which has a higher compressive strength than Ordinary Portland Cement and is used mainly for construction projects which require cement of higher strength
"precast concrete"	concrete that is pre-mixed and formed into custom made pieces (such as bricks and panels) and delivered as a finished product to the consumer

GLOSSARY OF TECHNICAL TERMS

“ready mixed concrete”	concrete that is mixed at local plants and then delivered to the consumer for subsequent setting
“rotary kiln”	a large, cylindrical steel tube which acts as an oven and heats raw materials to produce clinker. The majority of rotary kilns use the new dry process and NSP technology. Rotary kilns are more fuel-efficient and less pollutive than vertical kilns.
“sandstone”	a sedimentary rock formed mainly of quartz grains of sand size, cemented with aluminosilicates or iron compounds or both
“setting”	the process for producing concrete whereby cement is mixed with water and the resulting paste hardens by hydration into a rigid solid
“setting time”	the time for setting to complete
“shotcrete”	mortar or concrete projected through a hose and pneumatically projected at high velocity onto a surface
“silo terminals”	warehouse for storage of cement in transit
“ton” or “tons”	metric ton, equivalent to 1,000 kilograms
“vertical kiln”	a vertical cylindrical device used for sintering, burning or drying raw materials. Vertical kilns employ an older technology than rotary kilns. They have lower production efficiency and do not normally produce high quality clinker.

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

Forward-looking statements contained in this document are subject to risks and uncertainties.

These forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our capital expenditure plans;
- our operations and business prospects;
- our financial condition;
- our projected dividend policy;
- the regulatory environment as well as the industry outlook generally;
- future developments and the competitive environment in our industry; and
- general economic trends in China or Hong Kong.

This document contains certain statements that are “forward-looking” and uses forward-looking terminology such as “anticipate,” “believe,” “expect,” “may,” “ought to,” “should” or “will”. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based on those assumptions may also be incorrect. The risks and uncertainties in this regard include those identified in the risk factors in the section headed “Risk Factors” in this document. In light of these and other risks and uncertainties, the inclusion of forward-looking statements should not be regarded as representations by us that our plans/expectations and objectives will be achieved.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors” in this document.

RISK FACTORS

You should consider carefully all the information set out in this document, including the risks and uncertainties described below. Our Company's business, results of operations, financial condition or prospects could be materially and adversely affected by any of these risks. The risks described below are those that we believe are material, but these may not be the only risks and uncertainties that we face. Additional risks we have not identified, or which we currently deem immaterial, may nevertheless have a material adverse effect on our business, results of operations or financial condition.

RISKS RELATING TO OUR BUSINESS

We may not be able to continue grow at a rate comparable to our historical growth rates, or we may have difficulty managing any future growth.

Our turnover and net profit from our continuing operations have grown significantly during the Track Record Period. For the years ended December 31, 2006, 2007 and 2008, our turnover from continuing operations was HK\$2,111.7 million, HK\$3,743.2 million and HK\$5,781.3 million, respectively, representing a CAGR of 65.5%, and our net profit from continuing operations for the same periods was HK\$82.6 million, HK\$358.8 million and HK\$783.7 million, respectively, representing a CAGR of 208.0%. Our turnover and net profit from our continuing operations for the six months ended June 30, 2009 were HK\$2,738.7 million and HK\$369.6 million, respectively. The significant increase in our turnover and net profit from continuing operations was mainly due to the growth in the demand for our products and the expansion of our production capacity, which in turn were attributable to the expansion of the Southern China regional economy where we operate primarily.

We may not be able to grow, either in terms of turnover or net profit, at a rate comparable to our historical growth rates, or at all. For example, our plan to expand capacity in certain markets may involve our construction of additional production lines and acquisitions of other companies, which in turn may strain our managerial, operational, technical support and financial resources. As a result, we may not be able to manage such growth cost effectively. Failure to effectively manage our growth could have a material adverse effect on our business, results of operations and financial condition, and could jeopardize our ability to achieve our business strategies and maintain our market position.

Our business depends significantly on the market conditions in the construction industry in China and Hong Kong.

Cement and concrete are basic construction materials and are therefore affected by the demand for construction activities and macroeconomic movements. Demand for our products depends on the condition and growth of the construction industry in China and Hong Kong, which in turn depends on macroeconomic factors such as interest rates, inflation, unemployment levels, demographic trends and consumer confidence. We cannot assure you that demand for construction activities will continue to grow or even remain at the current level. In the past, the PRC Government has implemented measures to curtail the overheating of the real estate sector. More recently, however, the PRC Government has introduced measures to moderate the effects of the global economic downturn on the PRC's economy. Such measures include a RMB4 trillion general stimulus plan that includes initiatives to promote infrastructure development, tax breaks for home buyers, lower down-payment requirements for home purchases and a RMB400 billion package to build affordable homes. The Hong Kong Government has also introduced a number of major infrastructure projects to stimulate its economy. However, there can be no assurance as to the effectiveness of the PRC and Hong Kong Governments' stimulus measures. The values of properties in China and Hong Kong have been volatile since the global financial crisis began. It is difficult to determine the net effect of the global financial crisis on the construction industry in China and Hong Kong. If the global economic downturn continues or adversely affects China and Hong Kong, demand for our products may decrease, which in turn would have a material and adverse effect on our business, results of operations and financial condition.

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The current global market fluctuations and economic downturn could materially and adversely affect our business, results of operations and financial condition.

The global capital and credit markets have been experiencing extreme volatility and disruption in recent periods. Concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, the US mortgage market and a declining residential real estate market in the United States and elsewhere have contributed to market volatility and diminished expectations for the global economy and the capital and consumer markets in the future. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. These events have led to a slowdown in the PRC economy which a number of economists predict could be significant and protracted, which could materially and adversely affect the building and infrastructure industry in China. As a result, consumer demand for our products may significantly decrease, thereby materially and adversely affecting our business, results of operations and financial condition.

We rely heavily on the Xijiang River to transport coal to our production sites and our finished products to our customers; any interruption to this means of transportation could disrupt or delay our production schedule and our delivery to our customers.

The coal we use in our production processes and our finished products are mainly transported to and from our production sites by ships through the Xijiang River. Delivery disruptions may occur for reasons beyond our control, including accidents, supply shortages, fluctuations in the Xijiang River's water level and natural disasters that would suspend transportation on the Xijiang River. Delays in coal deliveries to our production sites would disrupt our production schedule. If our products are not delivered on time, we may have to compensate our customers and organize alternative transport which, even if available, would increase our cost of transportation. Any significant failure to resolve transportation disruption promptly could damage our reputation and cause us to lose business, which in turn could materially and adversely affect our business, results of operations and financial condition.

Our business and results of operations may be adversely affected by increases in coal or electricity prices or shortages of coal and electricity supplies.

We use a substantial amount of coal and electricity in our production processes, and any shortage or interruption could disrupt our operations and increase our costs of sales. The pricing for coal in our supply agreements is directly linked to market prices, so we bear the risk of coal price fluctuations. The prices of coal and electricity have increased during the Track Record Period mainly due to the general increase of energy demand in China. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our cost of coal as a percentage of turnover was 19.2%, 18.4%, 28.6% and 25.2%, respectively. According to China Coal Transport and Distribution Association (中國煤炭運銷協會), the price per ton of coal in China experienced a general increase from December 2007 to December 2008, from a range of RMB520 to RMB530 per ton to a range of RMB590 to RMB610 per ton. Subsequently, the price of coal per ton in June 2009 ranged from RMB560 per ton to RMB570 per ton. The range in price reflects different quality levels and different burning efficiencies. The price of coal may again increase as a result of a removal of price caps on thermal coal in 2009, as announced by the NDRC in December 2008. We cannot predict future price trends for coal, or the degree of any volatility, and an increase in the price of coal could have a material adverse effect on our business, results of operations and financial condition.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our cost of electricity as a percentage of turnover was 15.3%, 12.7%, 11.3% and 12.0%, respectively. Provincial governments in China regulate electricity prices for industrial enterprises. According to Guangxi Power, the price per kilowatt hour of electricity in Guangxi, where we produce a significant portion of our cement, rose from a range of RMB0.44 to RMB0.57 in 2006 to a range of RMB0.47 to RMB0.59 in 2008. This price range reflects

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fluctuations throughout the year. We cannot predict future price trends for electricity, or the degree of any volatility. Any significant increase in the prices of coal or electricity or any shortage or interruption in their supply could increase our costs of coal and electricity and/or cause disruptions to our operations, which in turn could have a material adverse effect on our business, results of operations and financial condition.

The prices of raw materials may continue to rise, and we may be unable to pass on some or all of the increases to our customers.

Our production also depends on reliable sources of large quantities of other raw materials such as sand, aggregate, gypsum and clay. Our raw materials are subject to price volatility caused by external conditions, such as commodity price fluctuations and changes in governmental policies. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our top five raw material suppliers accounted for approximately 18.9%, 18.7%, 9.2%, and 13.4%, respectively, of our total purchases of raw materials. We cannot assure you that our key suppliers will continue to provide us with raw materials at reasonable prices, or that our raw materials prices will remain stable in the future.

In addition, we may not be able to transfer some or all of the incremental cost increases in our raw materials to our customers. As a result, any increase or material fluctuation in the prices of our raw materials could have a material adverse effect on our business, results of operations and financial condition.

We cannot assure you that we will be able to renew our existing mining rights, or secure additional mining rights.

Under the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》), all mineral resources in China are owned by the State. We must obtain mining rights before undertaking any mining activities, and the mining rights are limited to a specific area and licensing period. We have obtained mining rights to limestone quarries that are located near our production facilities in Pingnan, Guigang, Binyang, Fengkai and Nanning. We are also in the process of applying for mining rights for certain other mines. We cannot assure you that we will be able to renew our existing mining rights once such rights expire or secure other mining rights on favorable terms, or at all. Please see the section headed "Business — Raw Materials" of this document for details of our existing mining rights and current applications.

Furthermore, our mining rights are subject to annual review by the relevant government departments governing land and resources in the areas where we operate. Although we have passed the annual reviews without penalty in the past, we cannot assure you that we will pass the annual reviews or avoid any penalties in the future. Our operations and expansion could be adversely affected if we were to fail to renew our existing mining rights or secure additional mining rights.

We recorded net current liabilities during the Track Record Period, and we may continue to maintain a net current liabilities position in the future, which may adversely affect our liquidity.

As at December 31, 2006, 2007 and 2008 and June 30, 2009, 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, respectively. We used a significant amount of loans to finance the construction of our production facilities and to purchase relevant equipment. We normally recorded such assets as non-current assets rather than current assets. Our cash used in the acquisition of fixed assets, which we used mainly to construct 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.

We expect that we will continue to record net current liabilities in the foreseeable future. Our net current liabilities position exposes us to liquidity risk. Our future liquidity, the payment of trade and other payables and

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the repayment of our outstanding debt obligations as and when they become due will depend primarily on our ability to maintain adequate cash inflows from operating activities. As at the Latest Practicable Date, we had not experienced any liquidity problems in settling our payables or rolling over our short-term bank loans in the ordinary course of business when they fell due. However, we cannot assure you that we will always be able to raise the necessary funding to refinance our short-term borrowings upon maturity and finance our capital commitments. The global capital markets and credit markets have been volatile since the second half of 2007. In some cases, the markets have restricted the availability of liquidity and credit capacity. The amount of our unutilized banking facilities was HK\$2,815.7 million as at July 31, 2009. The continuing availability of financing is subject to a variety of factors such as market conditions, the overall availability of credit to the cement industry, our credit capacity as well as consumer and lender sentiment. If we were unable to refinance these short-term borrowings or obtain sufficient alternative funding on reasonable terms from banks, we would have to repay these borrowings and we cannot assure you that our business will generate sufficient cash flow to do so. In such circumstances, our business operations, liquidity, financial position and prospects may be materially and adversely affected.

We are highly leveraged, and our business, results of operations and financial condition could be materially and adversely affected by our indebtedness.

We have relied on cash generated from our operations, short-term and long-term loans, loans from our related parties and convertible bonds to fund our capital requirements in the past, and we expect to continue to derive funding from cash generated from our operations and bank loans in the future. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total short-term and long-term bank loans were HK\$2,887.9 million, HK\$2,004.3 million, HK\$4,497.6 million and HK\$8,708.9 million, respectively. Our level of indebtedness could materially and adversely affect us. For example, it could:

- require us to allocate a higher portion of our cash flow from operations to fund repayments of our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditure and other general corporate purposes;
- increase our vulnerability to adverse economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or the industry in which we operate;
- potentially restrict us from pursuing strategic business opportunities; and
- increase our exposure to interest rate fluctuations.

Although we had unutilized bank facilities of HK\$2,815.7 million as at July 31, 2009 and we have not experienced a reduction or withdrawal of credits or banking facilities by our lenders as of the Latest Practicable Date, we cannot assure you that we will be able to continue to refinance our bank loans when they become due. We may not have sufficient funds available to repay our bank loans, particularly our short-term loans, upon maturity. Failure to service our debts or comply with the terms, conditions and covenants of our facility agreements could result in imposition of penalties, including among other things, increases in our interest rates, accelerated repayment of loans and interest, termination of facilities and legal action against us by our creditors, any of which could have a material and adverse effect on our business, results of operations and financial condition. Furthermore, our liquidity depends on the amount of cash we generate from operations and our access to further financial resources to fulfill our short-term payment obligations, which will be affected by our future operating performance, prevailing economic conditions and other factors, many of which are beyond our control.

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Our business depends on our ability to manage our working capital successfully.

Our operating activities and short-term bank loans generate working capital that we depend on for our corporate operations and capital expenditures. Our future success depends on our ability to continue to secure and successfully manage sufficient amounts of such working capital. Such successful management involves (i) timely payments of, or rolling over of, our short-term indebtedness and securing new loans on favorable terms, (ii) timely payments or re-negotiation of our payment terms for our trade payables, (iii) efficiently utilizing banking facilities, (iv) timely collection of trade receivables and (v) establishing and executing accurate and feasible budgets for our business operations. If we cannot manage our working capital successfully, our business, results of operations and financial condition could be materially and adversely affected.

Fluctuations in the exchange rate of the Renminbi against the Hong Kong Dollar will have an effect on our potential exchange gain or loss, finance cost, depreciation expense, other comprehensive income and profitability.

For the period up to December 2007, our Directors 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 and the majority of our operating assets and liabilities are located in China, our Directors were of the view that our functional currency has changed to the Renminbi. According to the Hong Kong Accounting Standard 21, monetary items denominated in foreign currencies should be translated at the exchange rates prevailing on the consolidated statements of financial position dates. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized as profit or loss in the year/period in which they arise. Some of our bank borrowings and the amount due to our immediate holding company are denominated in Hong Kong Dollars. Due to appreciation of the Renminbi against the Hong Kong Dollar, we recognized an exchange gain of HK\$183.6 million in 2008 as we required fewer Renminbi to repay these monetary liabilities that we originally borrowed in Hong Kong Dollar. This exchange gain was a non-cash item, and we recognized it as part of our other income in 2008. It represented approximately 23.4% of our profit for the year from our continuing operations in 2008. Of the HK\$183.6 million of exchange gain, HK\$121.8 million was attributable to the exchange gain arising from the amount due to our immediate holding company. Please see the section headed "Financial Information — Other income" of this document for details on the exchange gain. We repaid this amount in June 2008 and the exchange gain arising from this transaction will therefore not re-occur. In addition, we recognized certain comprehensive income arising from exchange difference arising on translation of foreign operations in the amount of HK\$67.4 million, HK\$220.1 million, HK\$171.2 million and a loss of HK\$5.0 million for 2006, 2007, 2008 and the six months ended June 30, 2009, respectively. These amounts represent the translation of our financial information from our functional currency of Renminbi into our presentation currency of Hong Kong Dollars. Whether we will incur an exchange gain or loss from our bank borrowings or comprehensive income associated with exchange difference arising on translation of foreign operation in the future will depend on the movements of the exchange rate of the Renminbi against the Hong Kong Dollar and other foreign currencies and the amount of our bank borrowing denominated in such foreign currencies. For example, if the Renminbi depreciates against the Hong Kong Dollar, we may experience an exchange loss as we will need to recognize the difference of the Renminbi and the Hong Kong Dollar based on the Hong Kong Accounting Standard 21. Fluctuations in the exchange rate of the Renminbi will have a direct impact on our finance cost, depreciation expense, other comprehensive income or profitability. As a result, we cannot assure you that we will continue to derive income from our exchange gain, and any exchanges losses could have a material and adverse effect on our business, results of operations and financial condition.

Exchange rate fluctuations of the Renminbi may affect our results of operations.

The exchange rates between the Renminbi and the Hong Kong Dollar, the US Dollar and other foreign currencies are affected by, among other things, changes in China's political and economic conditions. On

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July 21, 2005, the PRC Government changed its decade-old policy of pegging the value of the Renminbi to the US Dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 0.5% each day. This change in policy has resulted in the value of the Renminbi appreciating against the US Dollar by approximately 18.7% between July 21, 2005 and June 30, 2009. Furthermore, we will need to convert the proceeds from future financing in foreign currencies into the Renminbi for our operational use.

Appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the Renminbi amount we receive following conversion. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currencies. As a result, any significant revaluation of the Renminbi may have a material and adverse effect on our cash flow, results of operation and financial position.

We rely on our network of distributors, and to the extent that any distributor for any particular market ceases to cooperate with us for any reason, we may lose significant business in that market.

We rely on our network of distributors in local markets to sell our cement products to end users. Our relationship with these distributors may or may not continue, which could cause interruptions to the supply of our products to end users. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we used 80, 123, 168 and 98 distributors, respectively, for our cement products. In respect of our continuing operations, our turnover from these distributors for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, was HK\$357.3 million, HK\$893.4 million, HK\$1,725.2 million and HK\$633.8 million respectively, representing 32.2%, 41.0%, 46.2% and 35.5% respectively, of our total cement sales for the same periods.

If a distributor for any particular market ceases to cooperate with us for any reason and we cannot promptly replace such distributor, we may lose significant business in the relevant market, which in turn could have a material and adverse effect on our business, results of operations and financial condition.

We do not possess valid legal title or the right to lease with respect to certain properties that we occupy.

Neither we nor our landlords have obtained all valid title certificates to certain properties that we occupy. We may not be able to freely transfer title to those properties, or use them freely. For our owned properties, as at June 30, 2009, we had not obtained proper land use right certificates and building ownership certificates for 13 parcels of land with an aggregate area of approximately 950,000 square meters and 65 buildings with an aggregate gross floor area of approximately 62,000 square meters, respectively. For our leased properties, as at June 30, 2009, our landlords had not obtained or produced to us proper land use right certificates and building ownership certificates for 11 parcels of land with an aggregate area of approximately 2,800,000 square meters and seven buildings with an aggregate gross floor area of approximately 2,800 square meters, respectively. We use these properties for various purposes, including offices and ancillary facilities such as warehouses and staff quarters. In addition, we have not obtained the relevant government approvals in respect of the short term leases for seven parcels of land occupied by our batching plants with an aggregate area of approximately 105,000 square meters. The percentage of our turnover we derived from production facilities located on properties with defective title or leasehold interest for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 was 19.1%, 16.0%, 11.6% and 8.5%, respectively, of our turnover from continuing operations for the same periods, with contribution to net profit from continuing operations amounting to 45.4%,

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8.4%, 2.3% and 3.6%, respectively, for the same periods. The operations we conduct on or from these properties may be adversely affected as a result of the absence of valid legal title or right to lease these properties. For example, we may be required to relocate such operations temporarily or permanently, and such business interruption could materially and adversely affect our business, results of operations and financial condition.

Our controlling shareholder has significant influence over our management, and the interests of our controlling shareholder may not be aligned with our interests or the interests of other shareholders.

We are wholly-owned by Smooth Concept, which in turn is approximately 99.99% owned by China Resources Holdings. The interests of our controlling shareholder may conflict with the interests of our other Shareholders. China Resources Holdings and Smooth Concept have, and will continue to have, significant influence over us, including on matters relating to mergers, consolidations and sale of all or substantially all of our assets, the election of directors, and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of us, which could deprive our Shareholders of opportunities to receive a premium for their Shares as part of a sale of us or our assets. Due to Smooth Concept's significant shareholding position in our Shares, these actions may be taken even if they are opposed by our other Shareholders.

Our business depends substantially on the continuing efforts of our executive directors, senior management, key personnel, and our ability to maintain a skilled labor force.

Our future success depends, to a large extent, on the continued service of our executive directors, senior management and key personnel, specifically Madam ZHOU Junqing, Mr. ZHOU Longshan and members of our senior management team. We depend on such persons' expertise in corporate and financial management, strategic development, sales and marketing and the cement industry for the success of our day to day operations. If one or more of our executive directors or senior management were unable or unwilling to continue in their present positions, we may be unable to identify and recruit suitable replacements in a timely manner, or at all. In addition, if any member of our senior management were to join a competitor or forms a competing company, we may lose some of our know-how and customers.

Furthermore, recruiting and retaining capable personnel, particularly experienced engineers and technicians familiar with our production processes, are vital to maintaining the quality of our products, continuously improving our production processes and supporting the expansion of our production capacity. There is substantial competition for qualified personnel in the cement and concrete industries, and we cannot assure you that we will be able to attract or retain qualified personnel. If we are unable to attract and retain qualified employees, key personnel and senior management, our business, results of operations and financial condition may be materially and adversely affected.

Any failure to maintain an effective quality control system at our production facilities could have a material and adverse effect on our business, results of operations and financial condition.

The quality of our products is critical to the success of our business. This significantly depends on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality control training program, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any significant failure or deterioration of our quality control system could result in the production of defective or substandard products, which in turn may result in delays in the delivery of our products, the need to replace defective or substandard products and damage our reputation. Accordingly, this could have a material and adverse effect on our business, results of operations and financial condition.

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We have limited insurance coverage and may be subject to liabilities resulting from potential operation risks and losses that may not be covered by our insurance policies.

Our business and operations are exposed to the risk of liability for personal injury and loss of life, and damage to or destruction of property, plant and equipment. In the event of any accident, we could be liable for loss of life or damage to property, medical expenses, medical leave payments, fines or penalties for violation of applicable PRC laws and regulations, and we may be subject to business interruptions caused by equipment shutdowns or suspension of operations due to government investigation or the requirement to implement additional safety measures. We maintain insurance coverage in amounts and against such risks that we believe to be appropriate in accordance with industry practice. If we were to incur substantial losses or liabilities and our insurance coverage were unavailable or inadequate to cover such losses or liabilities, our business, results of operation and financial condition could be materially and adversely affected.

Any unauthorized use or tarnishment of our brand names, trademarks and other intellectual property rights may materially and adversely affect our business, results of operations and financial condition.

We rely on the PRC intellectual property and competition laws and contractual restrictions to protect our brand names, trademarks and other intellectual property rights. Our brand name, trademarks and other intellectual property rights are important to our business. Our cement products are principally sold under the trademarks “華潤” (Huarun) and “紅水河” (Hongshuihe). Any unauthorized use of our brand names, trademarks, and other intellectual property rights by third parties or tarnishment of the same by other companies in the China Resources Holdings Group that also have the Chinese characters “華潤” (Huarun) in their corporate names could adversely affect our business, reputation and market position.

We cannot assure you that the measures we take to protect our brand names, trademarks and other intellectual property rights and to minimize the possibility of our key brand names and trademarks from being associated with products of inferior quality will be sufficient. In addition, the application and interpretation of the PRC laws governing intellectual property rights in China are uncertain, which undermine the level of legal protection such laws offer. If we or China Resources Holdings is unable to adequately protect our brand names, trademarks and other intellectual property rights, our business, results of operations and financial condition could be adversely and materially affected.

Any significant product liability claims made against us, whether successful or not, could harm our business, results of operations and financial condition.

We are exposed to risks associated with product liability claims if the use of our cement and concrete products results in damage or injury. Our cement and concrete products are mainly used by our customers as construction materials for their building projects. While we seek to conform our products to meet a variety of contractual specifications and regulatory requirements, we cannot assure you that product liability claims against us will not arise, whether due to product malfunctions, defects, or other causes. We do not maintain product liability insurance. As a result, any dispute regarding the quality of our products may give rise to claims against us for losses and damages. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. Furthermore, we cannot assure you that we will be able to defend successfully against such claims. If any such claims were ultimately successful, we could be required to pay substantial damages, which could materially and adversely affect our business, results of operations and financial condition.

We rely principally on dividends and other distributions paid by our subsidiaries, and limitations on their ability to pay dividends to us could have a material adverse effect on our business, results of operations and financial condition.

We are a holding company incorporated in the Cayman Islands, and our business operations are primarily conducted through our PRC subsidiaries. We rely on dividends and other distributions paid by our PRC

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subsidiaries for our future cash needs which cannot be provided for by equity issuances or borrowings outside of China, including the funds necessary to pay dividends to our Shareholders, to service any debt we may incur and to pay our operating expenses.

As entities established in China, our PRC subsidiaries are subject to limitations with respect to dividend payments. Regulations in the PRC currently permit payment of dividends by PRC subsidiaries only out of accumulated profits as determined in accordance with the PRC GAAP. According to applicable PRC laws and regulations, each of our PRC subsidiaries is required to maintain a general reserve fund, a staff welfare fund and a bonus fund. Each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profit based on PRC GAAP, each year for general reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as dividends. Contributions to such reserves are made from each of our PRC subsidiaries’ net profit after taxation. In addition, if any of our PRC subsidiaries incurs debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. As a result, each of our PRC subsidiaries is restricted in its ability to transfer its net profit to us in the form of dividends. If our PRC subsidiaries cannot pay dividends due to government policies or regulations, or because they cannot generate sufficient cash flow, we may not be able to pay dividends, service our debt or pay our expenses, which may have a material adverse effect on our business, results of operations and financial condition.

We currently enjoy certain PRC Government incentives. Expiration of, or changes to, these incentives could materially and adversely affect our business, results of operations and financial condition.

Certain of our subsidiaries in the PRC are entitled to government support in the form of priority with respect to project approvals, land use right grants, credit approvals when undertaking mergers, acquisitions and project investments. The PRC Government also offers cement producers certain government incentives and enterprise income tax exemptions that we enjoyed during the Track Record Period. For example, we received HK\$44.1 million, HK\$35.1 million, HK\$52.1 million and HK\$25.0 million of government incentives in 2006, 2007, 2008 and for the six months ended June 30, 2009, respectively. We cannot assure you that we will be able to continue to enjoy such preferential treatments, incentives and favorable support on the same terms, or at all, in the future. For example, the grant of our environmental-related development incentives is subject to the discretion of the relevant government authorities and may not be renewed. Furthermore, unfavorable changes to these preferential treatments and incentives in the future will adversely and materially affect our business, results of operations and financial condition.

Our operating results may fluctuate significantly as a result of some factors beyond our control.

Our operating results may fluctuate significantly as a result of some factors that are beyond our control. These factors include:

- disruptions of public infrastructure such as roads, ports or power grids; and
- natural disasters, earthquakes or catastrophic events.

In May 2008, Wenchuan County of Sichuan Province, a region that is approximately 360 kilometers away from Chongqing City, suffered an earthquake with an 8.0 magnitude on the Richter Scale (the “Sichuan Earthquake”). We believe the impact of the Sichuan Earthquake will be minimal on our Group, because our business and operations are principally located in Southern China. As at the Latest Practicable Date, we have not been informed of any loss of lives or injury or destruction of assets attributable to our products, or any other impact on production, sales or supply of raw materials of our Group, as a result of the Sichuan Earthquake. However, we cannot assure you that we will not suffer any losses in the future as a result of other incidents that

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are beyond our control in the future. As a result, the above factors and other factors may result in operational disruption, material unanticipated costs, lower turnover and net profit or losses. These factors may also cause our operating results to fluctuate significantly.

Compliance with environmental regulations can be expensive, and any failure to comply with these regulations could result in adverse publicity, potential significant monetary damages and fines and suspension of our business operations.

We are subject to national and local environmental protection laws and regulations. Failure to comply with these regulations may result in penalties, fines, administrative sanctions, proceedings and/or suspension or revocation of our licenses or permits to conduct our business. The PRC Government has adopted a series of environmental policies to reduce the adverse effects of the cement and concrete industries on the environment. With the increasing awareness of environmental protection issues, we anticipate that the PRC environmental regulatory framework will become increasingly stringent. Furthermore, in the past few years, the Hong Kong Government also has raised concerns over the environment, which prompt the Hong Kong Government or regulatory authorities to strengthen the relevant regulations. Governmental requirements that affect our operations include those relating to air quality, solid waste management and waste water treatment. These requirements are complex and subject to changes. We cannot assure you that the Hong Kong Government will not introduce new rules and regulations that impose more stringent controls over industrial pollution. We may be unable to comply with any additional environmental regulations which are implemented in the future on a cost-effective basis, if at all. In such an event, our business, results of operations and financial condition could be materially and adversely affected.

We are subject to safety and health laws and regulations in China, and any failure to comply could adversely affect our operations.

We are required to comply with the applicable production safety standards in relation to our production processes. Our production plants and the facilities we use are subject to regular inspections by the regulatory authorities for compliance with the Safe Production Law of the PRC (《中華人民共和國安全生產法》). Furthermore, under the PRC Labor Law and the PRC law on the Prevention and Treatment of Occupational Diseases (《中華人民共和國職業病防治法》), we must ensure that our facilities comply with PRC standards and requirements on occupational safety and health conditions for employees. We also provide our employees with labor safety education, necessary protective tools and facilities, and regular health examinations for those who are engaged in work involving risks of occupational hazards. Nevertheless, failure to meet the relevant legal requirements on production safety and labor safety could subject us to warnings from relevant governmental authorities, governmental orders to rectify such non-compliance within a specified time frame and maximum fines of up to RMB500,000. We may also be required to suspend our production temporarily or cease our operation permanently for significant non-compliance, which would have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATING TO THE CEMENT AND CONCRETE INDUSTRY IN CHINA AND HONG KONG

The cement industry is highly capital intensive, and our future growth depends to a large extent on our ability to obtain external financing.

The cement industry in which we operate is capital intensive. We require a significant amount of capital to build our production and operation facilities, to purchase production equipment and to develop and implement new technologies. In addition, we are planning to construct additional production lines, and may pursue external expansion by acquiring suitable targets. We expect that this capacity expansion plan will allow us to capture additional market share in Southern China where the construction and infrastructure industries are growing rapidly. As a result, we expect to contribute significant capital to fund our future growth.

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Our internally generated capital resources and available bank facilities may not be sufficient to finance our capital expenditure and growth plans, we plan to seek additional financing from third parties, including but not limited to banks, venture capitalists, joint-venture partners and other strategic investors. If we are unable to obtain financing in a timely manner, at a reasonable cost and on reasonable terms, we may be forced to delay our expansion plans, which may have a material and adverse effect on our business, results of operation and financial condition.

We face intense competition in the cement and concrete industries, which may reduce demand for our products.

The cement and concrete industries in which we operate are intensely competitive and price sensitive. According to the China Cement Association, there were more than 600 above-scale cement producers (i.e., state-owned enterprises and non-state-owned enterprises with an annual income of over RMB5.0 million) in Southern China in 2008. Our major competitors include national companies such as Anhui Conch Cement Company Limited ("Anhui Conch") as well as smaller scale regional producers in the markets where we operate. In the past several years, the PRC Government has encouraged the development of large-scale cement production and the use of advanced NSP technologies. Many small-scale cement companies using less advanced production technologies were forced to close down as a result.

Competition in the cement industry has also intensified due to the cross-province expansion undertaken by major cement companies and the entry of foreign cement companies. Some of our larger competitors such as Anhui Conch or TCC International Holdings Limited operate at a large scale and have cost advantages as a result of their economies of scale and their abilities to obtain volume discounts for their procurements. In addition, they may have better brand name recognition and larger customer bases than we do. In addition, the concrete industry in Hong Kong is also characterized by intense competition. There are nine major competitors to our concrete business in Hong Kong. We may lose business to competitors who underbid us. The competitive position of our concrete business in Hong Kong will largely depend on the locations and operational costs of our ready mixed concrete plants. Competitors that have lower operating costs than us or that have more financial resources will have a competitive advantage over us in winning contracts that are particularly price sensitive. Furthermore, competitors that have greater financial resources than us could invest in more mixer trucks, build plants in more strategic locations or engage in strategic acquisitions. As a result, our failure to compete successfully against our competitors could materially and adversely affect our business, results of operations and financial condition.

Our results of operations are subject to seasonal changes in demand for our cement and concrete products.

We usually experience a reduction in sales during the first quarter of each calendar year due to the holiday season. In addition, we typically experience a reduction in our sales due to climatic conditions, such as cold weather, snow, storms and heavy or sustained rainfall, which negatively affect the level of activity in the construction industry. We generally experience an increase in sales volume of our products in the fourth quarter of each year because of improved weather conditions and we generally increase the prices of our products during this period due to the higher level of construction activities. Our first-quarter sales of cement and concrete products for each of the years ended December 31, 2006, 2007 and 2008 represented 15%, 16% and 20%, respectively, of our total turnover from continuing operations for those years. In contrast, our fourth-quarter sales of cement and concrete products for each of the years ended December 31, 2006, 2007 and 2008 represented 35%, 36% and 29%, respectively, of our total turnover from continuing operations for those years.

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The cement and concrete industries are subject to significant regulation by the PRC and Hong Kong Governments.

Various PRC Government authorities, including but not limited to the Ministry of Land and Resources, the State Environmental Protection Administration, the General Administration of Quality Supervision Inspection and Quarantine, MOFCOM and the Ministry of Construction of the PRC are empowered to issue and implement regulations governing various aspects of the cement and concrete production and excavation activities of raw materials. The concrete industry in Hong Kong is also regulated by the Hong Kong Government. Concrete producers in Hong Kong are subject to, among other things, general laws governing the operation of any plant facilities including Water Pollution Control Ordinance (Cap. 358 of the Laws of Hong Kong), Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong), Air Pollution Ordinance (Cap. 311 of the Laws of Hong Kong) and Factories and Industries Undertaking Ordinance (Cap. 59 of the Laws of Hong Kong). In addition, the Hong Kong and PRC Governments have adopted regulations and guidelines governing product standards and capacity (such as Building Ordinance (Cap. 123 of Laws of Hong Kong)).

In addition, we are required to maintain certain licenses and permits for our excavation activities in China and our operations in both China and Hong Kong. If the interpretation of existing laws and regulations change or new regulations require us to obtain any additional licenses, permits or approvals, we cannot assure you that we will successfully obtain such licenses, permits or approvals in a timely manner, or at all. If we are not able to meet all the licensing conditions or the regulatory requirements, our business, results of operations and financial condition could be adversely and materially affected.

RISKS RELATING TO CHINA

Any slowdown in the PRC economy or changes in political and economic policies of the PRC Government could have an adverse effect on the overall growth in China, which could reduce the demand for our products and materially and adversely affect our business, results of operations and financial condition.

We derive a substantial portion of our turnover from China, in particular, Southern China. In 2008, we derived 93.0% of our turnover from continuing operations from the sale of our products to external customers in China. Accordingly, our business, results of operations and financial condition are significantly affected by economic, political and legal developments in China. Demand for our products is dependent on the pace of the economic growth in China and in particular the general level of activity and growth in the construction industry in Southern China where we operate. In addition, general national economic conditions, mortgage and interest rate levels, inflation, unemployment, demographic trends, GDP growth and consumer confidence also influence the performance and growth of the construction industry and, consequently, the demand for our products. A downturn in the construction industry in China or in any of the regional markets where we operate could materially and adversely affect our business, results of operations and financial condition.

The PRC Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures, while benefiting the overall PRC economy, may have a negative effect on us. For example, efforts by the PRC Government to slow the pace of growth of the real estate industry in China may negatively affect the real estate market and consequently impede the growth of the construction industry. Policies and measures that were introduced and those that may be introduced by the PRC Government may lead to changes in market conditions, including price instability and an imbalance between the supply of, and demand for, properties in China. Any weakening in the PRC property sector in our target regional markets could adversely affect our financial condition and results of operations.

As a result, any adverse change in government policies or economic conditions in China could have a material adverse effect on the overall economic growth which in turn could lead to a reduction in the demand for

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our products and consequently have a material adverse effect on our business, financial position and results of operations.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

A significant portion of our business and operations is conducted in China and governed by PRC laws, rules and regulations. Our PRC subsidiaries are generally subject to laws, rules and regulations applicable to foreign investments in China and, in particular, laws applicable to wholly foreign owned enterprises. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC Government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in China. However, China has not developed a fully integrated legal system, and recently-enacted laws and regulations may not sufficiently address all relevant aspects of economic activities in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention, which could have a material and adverse effect on our business, results of operation and financial condition.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from making additional capital contributions or loans to our PRC subsidiaries.

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment each of our PRC subsidiaries is approved to make under relevant PRC laws and the registered capital of each of our PRC subsidiaries, and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to each of our PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect our PRC subsidiaries’ liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments.

We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and be subject to the PRC taxation on our worldwide income.

Under the new PRC Enterprise Income Tax Law that took effect on January 1, 2008, enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate on their worldwide income. The State Council of the PRC has promulgated implementation rules of this new tax law which defines “de facto management body” as an organization that exercises substantial and overall management and control over an enterprise’s manufacturing or business operation, finance and property. In addition, the “Notice of the SAT on Issues Relating to Determining the Resident Enterprise Status of Overseas Registered Chinese Holding Enterprises Based on the ‘de facto Management Bodies’ Standard” (國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), that was issued on April 22, 2009 and has a retrospective effect since January 1, 2008, provides specific tests regarding under what situations an enterprise’s “de facto management body” would be considered to be located in China. Although substantially all of our

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management is currently based in China, and we expect them to continue to be located in China for the foreseeable future, it is unclear when PRC tax authorities will start the determination process. In the event that we are treated as a "resident enterprise" for enterprise income tax purposes, our worldwide income, excluding dividends received from our China subsidiaries, will be subject to PRC income tax.

We may be subject to fines and penalties under the new PRC Labor Law, and our labor costs may increase.

The new PRC Labor Law imposes requirements concerning, among others, the types of contracts to be executed between an employer and an employee, and establishes time limits for probation periods and for fixed-term employment contracts. It also requires the employer to contribute to social insurance and housing funds on behalf of its employees. We are unsure whether the new PRC Labor Law will affect our current employment policies. We cannot assure you that our employment policies do not or will not violate the new PRC Labor Law and that we will not be subject to related penalties, fines or legal fees.

Furthermore, if labor costs increase in China, our production costs will increase and we may not be able to pass these increases on to our customers due to competitive pricing pressures. If we are subject to large penalties or fees related to the new PRC Labor Law or our labor costs increase, our business, results of operations and financial condition may be materially and adversely affected.

Government control over currency conversion may limit our ability to utilize our cash effectively.

In 2008, 93.0% of our turnover from continuing operations was denominated in Renminbi. The PRC Government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC Government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Under our current corporate structure, we derive a significant portion of our income from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations.

In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies. This could affect the ability of our subsidiaries in China to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us, which could have a material and adverse effect on our business, results of operations and financial condition.

Our results of operations may be adversely affected by the occurrence of an epidemic.

A threatened or actual outbreak of any widespread public health problem in China, such as severe acute respiratory syndrome, avian influenza or swine influenza, could have a negative effect on our results of operations. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices and production facilities, travel restrictions, the sickness or death of our key officers and employees, import and export restrictions and a general slowdown in China's national and regional economy.

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OTHER RISKS

Certain facts and other statistics with respect to China, the PRC economy and the PRC cement and concrete industries in this document are derived from various official government sources and third party sources may not be reliable.

Certain facts and other statistics in this document relating to China, the PRC economy and the PRC cement and concrete industries have been derived from various official government publications and third party sources. However, we cannot guarantee the quality or reliability of such sources. They have not been prepared or independently verified by us, or any of their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and may not be reliable.

Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere in other countries. As a result, readers of this document should consider carefully how much weight or importance they should attach to or place on such facts or statistics.

You should read this entire document carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us. Prior to the date of this document, there has been press and media coverage regarding us, particularly in the Infocast, on.cc, IRF Asia, Sing Pao, Wen Wei Po, Apple Daily, Ta Kung Pao, Hong Kong Commercial Daily, Hong Kong Daily News, South China Morning Post, Hong Kong Economic Times, Hong Kong Economic Journal, Ming Pao Daily and ET Net, which included certain financial information, financial projections, valuations, capital expenditure, acquisition plans and other information about us that do not appear in this document. We have not authorized the disclosure of any such information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it. Accordingly, you should not rely on any such information.

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Directors

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ZHOU Longshan	Room 3102-3103, Block A, Causeway Center, 28 Harbour Road, Wanchai, Hong Kong	Chinese
LAU Chung Kwok Robert	Flat 14H, Block 11, South Horizons, Apleichau, Hong Kong	Canadian
<i>Non-executive Directors</i>		
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<i>Independent Non-executive Directors</i>		
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Authorized Representatives	ZHOU Junqing Room 3602-3603, Block A, Causeway Center, 28 Harbour Road, Wanchai, Hong Kong ZHOU Longshan Room 3102-3103, Block A, Causeway Center, 28 Harbour Road, Wanchai, Hong Kong LAU Chung Kwok Robert (alternate) Flat 14H, Block 11, South Horizons, Apleichau, Hong Kong
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Members of the Remuneration Committee	ZENG Xuemin (Chairman) IP Shu Kwan Stephen LAM Chi Yuen ZHOU Longshan LAU Chung Kwok Robert

CORPORATE INFORMATION

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INDUSTRY OVERVIEW

This industry overview section contains some information and statistics concerning the national and some regional PRC cement and concrete industries that we have derived partly from official government and industry sources. The information in such sources may not be consistent with information compiled by other institutions within or outside China. Due to the inherent time-lag involved in collecting any industry and economic data, some or all of the data contained in this section may only represent the state of affairs at the time such data was collected. As such, you should also take into account subsequent movements in our industry and the PRC economy when you evaluate the information contained in this section.

We believe that the sources of such information are appropriate sources and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, or any of our affiliates and advisors. No representation is given as to the accuracy of such information and accordingly, such information should not be unduly relied upon.

Introduction

Cement is a basic and essential construction material. Various types of Portland Cement are produced by grinding and mixing different proportions of gypsum, blast furnace slag and other additives with clinker, a semi-finished product. The different proportions of clinker and the additives determine the ultimate performance quality of the cement.

There are two basic types of cement: non-hydraulic cement that will not harden in water and hydraulic cement that is stable in water, and can harden and set in wet environments. Portland Cement is the most commonly used type of hydraulic cement for construction.

In China, Portland Cement is graded on the basis of its compressive strength as measured in mpa. Different grades of cement are used in different applications. For example, large buildings and structures that carry a heavy weight load require cement of higher compressive strength.

Cement, when mixed with water and aggregate (gravel and sand), forms concrete. The portion of cement added to the mixture determines the overall strength and setting time of the concrete.

Uses and Types of Cement and Concrete

Cement is commonly used in the production of concrete, mortar and precast. Cement can be manufactured into concrete and formed on-site for large-scale projects such as buildings, bridges, dams and roadways. In addition, cement can also be used for mortar, acting as a bonding agent for brick walls and indoor tiling work. Alternatively, cement can be made into precast concrete products such as bricks, panels and highway dividers.

The main types of cement are Portland Cement, Ordinary Portland Cement and Composite Portland Cement.

Portland Cement has a high compressive strength and contains approximately 95% clinker which makes it relatively more expensive than other types of cement. As a result, Portland Cement is used for a large variety of construction projects that require higher strength materials such as high-rise buildings, airport runways and bridges.

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Ordinary Portland Cement is characterized by its quick hardening ability. It develops a relatively strong initial compressive strength. As a result, it is suitable for buildings that must complete construction in a short period of time. In addition, its resistance to abrasion makes it suitable for those structures which have extended exposure to vehicles and weather, such as roads and bridges.

Composite Portland Cement has similar characteristics to Ordinary Portland Cement except that it has a lower compressive strength than Ordinary Portland Cement. Composite Portland Cement contains less clinker which makes it less expensive than Ordinary Portland Cement and Portland Cement. Composite Portland Cement is used mainly for construction projects which require low quality concrete, such as small buildings and farm houses.

Concrete is produced in four basic forms: ready mixed concrete, precast concrete, concrete masonry and soil-cement and roller-compacted concrete.

Ready mixed concrete, the most common form of concrete, is formed and batched at local plants. This concrete is then delivered in trucks with revolving containers that constantly mix the concrete to prevent it from setting. Precast concrete is pre-mixed and formed into custom made pieces (such as bricks and panels) and delivered as a finished product to the consumer. Precast concrete products benefit from tight quality control achievable at a production plant.

Concrete masonry, another type of manufactured concrete, may be best known for its conventional brick-shaped block. Concrete masonry units can be molded into many shapes, configurations, colors, and textures to serve a wide variety of building applications and architectural needs. Traditional materials in this category include mortar and grout. Soil-cement and roller-compacted concrete are used for pavements and dams. Other products in this category include flowable fill and cement-treated bases.

Cement Production

Raw materials such as limestone, clay, blast furnace slag (or slate), silica sand and iron ore are fed through primary and secondary crushers or hammer mills. The next step can be either a wet or dry process. In the wet process, raw materials in controlled proportions are ground with water to form slurry, and are transferred into a kiln. In the dry process, the raw materials are ground and mixed without water, before being transferred into a kiln.

A kiln is a large, cylindrical steel tube which acts as an oven and heats the above mixtures at temperatures of up to 1,450°C. Rotary kilns are placed horizontally at a slight angle. Slurry or dry raw materials are fed into the higher end of the rotary kiln, and as they approach the lower end, a blast flame heats and chemically alters them. The blast flame is produced by burning either coal, oil or gas. Kilns can also use waste materials such as tires, rubber, paper, sewage sludge or plastic as fuel. As the raw materials move through the kiln, they release certain elements in gas form, while the remaining material solidifies into small, marble-sized pieces called clinker.

Clinker, possessing new physical and chemical properties, is crushed into fine powder. Gypsum and other materials such as volcanic ash and fly ash are added to the ground clinker, resulting in a powder that is Portland Cement. Gypsum is a key addition which adjusts the setting time of the cement when cement is eventually used in the production of concrete. The production process of cement contains a series of chemical and physical tests and specification analyses to ensure the quality of the cement.

Two main types of kilns are used in the cement production process: vertical kilns and rotary kilns. Vertical kilns employ less advanced technology, yield lower quality clinker and are less energy efficient. Vertical kilns can only use the semi-dry process of cement production. In contrast, rotary kilns employ more advanced

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technology (including NSP technology) that allows for enhanced monitoring of the clinker's quality. Rotary kilns are able to use the wet, dry or semi-dry process of cement production. Dry process rotary kilns employ more advanced NSP technology compared to wet and semi-dry process rotary kilns and are more fuel-efficient and produce less pollution. In addition, some more advanced dry process rotary kilns are equipped with NSP technology.

	<u>Technology</u>	<u>Production Efficiency</u>	<u>Product Quality</u>	<u>Pollution</u>
Vertical Kilns:				
Semi-dry process	old	low	low	high
Rotary Kilns:				
Semi-dry process	new	high	high	low
Wet process	old	high	high	low
Dry process (NSP)	latest	highest	highest	lowest

According to China Coal Transport and Distribution Association (中國煤炭運銷協會)⁽¹⁾, the price per ton of coal in China has experienced a general increase from December 2007 to December 2008, and a rapid decline from January 2009 to June 2009. In 2007, coal prices per ton ranged from RMB520 to RMB530. In 2008, this range increased to RMB590 to RMB600 in March, to RMB870 to RMB900 in June, to RMB860 to RMB920 in September and subsequently decreased to RMB590 to RMB610 in December. In 2009, the range was RMB550 to RMB565 in March and RMB560 to RMB570 in June. The range in price reflects different quality levels and burning efficiencies of the coal purchased. We cannot predict whether this general increase or fluctuation in coal prices will continue in the future.

Provincial governments in China regulate electricity prices for industrial enterprises. According to Guangxi Power, the price per kilowatt hour of electricity in Guangxi, where we produce a majority of our cement, ranged from RMB0.44 to RMB0.57 in 2006, to RMB0.43 to RMB0.56 in 2007, to RMB0.47 to RMB0.59 in 2008 and the price remained effectively unchanged for the first half of 2009. The range in price reflects the lower rate during the wet season and higher rate during the dry season. We cannot predict whether this fluctuation in electricity prices will continue in the future. According to Guangdong Power, the price per kilowatt hour of electricity in Guangdong was approximately RMB0.66 in 2008 and the price remained unchanged for the first half of 2009. In particular, the price per kilowatt hour of electricity in Shenzhen ranged from RMB0.29 to RMB1.01 from August 1, 2006 onwards and increased to RMB0.32 to RMB1.03 from July 1, 2008 onwards. The price per kilowatt hour of electricity in Shenzhen was RMB0.66 for the first half of 2009. The range between 2006 to 2008 reflects discount and peak rates charged at different times of the day.

Concrete Production

Concrete is a mixture of paste and aggregates. The paste, composed of Portland Cement and water, coats the surface of the fine and coarse aggregates. Through a chemical reaction called hydration, the paste hardens and gains strength to form concrete. The key to achieving strong and durable concrete is the careful proportioning and mixing of the ingredients. A concrete mixture that does not have enough paste to fill all the voids between the aggregates will be difficult to distribute evenly and will produce rough, honeycombed surfaces and porous concrete. A mixture with an excess of cement paste will be easy to distribute evenly and will produce a smooth surface. However, the resulting concrete is likely to shrink more and be uneconomical.

A properly designed concrete mixture will possess the desired workability for the fresh concrete and the required durability and strength for the hardened concrete. Typically, a mixture is about 10 to 15 percent cement, 60 to 75 percent aggregate and 15 to 20 percent water. Entrained air in many concrete mixes may also take up

⁽¹⁾ www.cctd.com (中國煤炭市場網) is organized by the China Coal Transport and Distribution Association (中國煤炭運銷協會) and provides web-based information on the price, transportation, supply and demand of coal in China.

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another 5 to 8 percent. Soon after the aggregates, water and the cement are combined, the mixture starts to harden. During this hydration process, a node forms on the surface of each cement particle. The node grows and expands until it links up with nodes from other cement particles or adheres to adjacent aggregates.

During placement, the concrete is consolidated to compact it within the forms and to eliminate potential flaws, such as honeycombs and air pockets. For slabs, concrete is left to stand until the surface moisture film disappears. After the film disappears from the surface, a wood or metal handfloat is used to smooth off the concrete. Additional floating and subsequent steel troweling procedures may be required to ensure a smooth, hard and dense surface.

The PRC Cement Market

China's economy has grown rapidly in recent years. From 2006 to 2008, China's GDP increased from approximately RMB21,192.4 billion to approximately RMB30,067.0 billion. Such growth represented a CAGR of approximately 19.1%, making China one of the fastest growing economies in the world. For the first six months of 2009, China's GDP reached approximately RMB13,986.2 billion, an increase of 7.1% over the same period of 2008. This economic growth has led to a significant rise in construction activity across China, increasing the demand for building materials such as cement.

The construction industry in China has experienced notable expansion in recent years. According to Digital Cement⁽¹⁾, China is the largest cement producing country in the world. China's cement production accounts for over 50% of the world's total cement production, with a total production volume amounting to approximately 1,400 million tons in 2008, a CAGR of 6.39% from 2006 to 2008. For the period between January to June 2009, China produced approximately 735 million tons of cement which represented 14.9% increase in production compared to the same period in 2008.

Effects of financial turmoil

As a result of the international financial turmoil in the latter half of 2008 and in 2009, to stabilize the domestic economy, the PRC Government sought to encourage domestic consumption with the aim of maintaining domestic economic growth by introducing a major project investment plan worth an aggregate of RMB4 trillion and a national railway construction plan worth an aggregate of RMB2 trillion. In view of the increase in investments by the PRC Government, many provincial governments pushed forward their investment plans and have begun constructing a number of major infrastructure projects in 2008 and early 2009, ahead of their initial plans. Such projects include the Southern Guangdong Express Railway (南廣高速鐵路), Guiguang Express Railway (貴廣高速鐵路), Western Guangdong Express Railway (廣東省西部沿海鐵路), Yunnan-Guizhou Express Railway (雲貴高速鐵路) and Guangxi Railway (廣西沿海鐵路).

⁽¹⁾ Digital Cement is organized by the China Cement Association, which has been appointed by the PRC Government and helps to formulate industry development strategies, legal policies, and industry standards and guidelines. Digital Cement publishes a monthly publication and also provides web-based information services and industry consulting services. Its website is <http://www.dcement.com/Index.html> (this website address and its contents do not form part of this document).

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The table below sets forth the amounts and growth rates of GDP, FAI, cement consumption and cement production in China for the periods indicated.

	Year ended December 31,			CAGR (%)	Six months ended June 30,
	2006	2007	2008	2006-2008	2009 ⁽¹⁾
GDP:					
RMB (in billions)	21,192.4	24,953.0	30,067.0	19.1	13,986.2
Growth rate (%)	11.6	13.0	9.0		7.1
FAI:					
RMB (in billions)	10,999.8	13,732.4	17,229.1	25.2	5,352.0
Growth rate (%)	23.9	24.8	25.5		32.9
Cement Production:					
Tons (in millions)	1,236.8	1,360.0	1,400.0	6.4	734.6
Growth rate (%)	15.7	9.9	2.9		14.9
Cement Consumption:					
Tons (in millions)	1,200.0	1,330.0	1,370.0	6.9	
Growth rate (%)	14.3	10.8	3.5		

Source: China Statistical Yearbook 2008, National Development and Reform Commission and National Bureau of Statistics of China (Cement Consumption data only).

(1) Compared to the same figure as at June 30, 2008.

The production and sale of cement is regional. Cement's raw materials and finished products possess a low value-to-weight ratio. Transportation distances for raw materials and finished products influence logistics costs considerably. To minimize necessary transportation costs, cement plants are generally situated near raw material reserves or target markets. As a result, cement products are generally sold within a radius of about 300 kilometers from the relevant plants. These cost and transportation constraints prevent nationwide monopolies, create regional competition, and practically eliminate any cement imports. However, competition in the PRC cement market has intensified after China's entry into the WTO, with international cement companies either moving their production base into China or acquiring local cement manufacturers.

The PRC Government has recently raised quality standards and in turn raised barriers of entry into the cement industry. For example, all newly constructed clinker production lines must now have sufficient limestone resources to support operations for at least 30 years, and all newly established cement grinding plants should now have a minimum annual production capacity of six million tons. In addition, the State Electricity Regulatory Commission and the NDRC discourage the operation of vertical kilns, and have implemented a new electricity pricing scheme that favors rotary kilns. Moreover, some government authorities have promulgated an increasing number of environmental regulations that force small scale cement producers to adopt more environmentally friendly technologies. The increased coal consumption in the use of vertical kilns and the costs of adopting environmentally friendly technologies present serious challenges to small scale cement producers.

The PRC cement industry is also governed by various other laws and regulations promulgated by relevant PRC authorities in connection with cement production, mineral resources, environment protection and safety and labor protection.

Key Industry Trends in China

NSP Technology Application

China's NSP technology has developed since the 1980s. The key component of NSP technology is the cyclone. A cyclone is a cone-shaped vessel and was originally used to clean the dust-laden gases exiting the dry

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process kilns. The entire feed of dry raw materials is fed through the cyclone, resulting in an efficient heat exchange, which in turn results in less heat emission to the atmosphere. The efficiency of the NSP system is further enhanced if a number of cyclones are connected.

The table below presents a breakdown of cement production in China by NSP and non-NSP technology during the periods indicated.

Technology	Year ended December 31,		
	2006	2007	2008
Non-NSP	50.0%	45.0%	37.1%
NSP	50.0%	55.0%	62.9%
Total	100.0%	100.0%	100.0%

Source: China Cement⁽¹⁾

Vertical Kiln Phase-out

The majority of the world’s industrialized nations began phasing out vertical kilns in the 1970s. China has only recently begun such vertical kiln elimination. In China, vertical kilns are still used in small-scale rural plants situated far away from main transport routes. According to the China Cement Association, approximately 37.1% of PRC cement producers still use vertical kilns in 2008.

The production of cement involves large amounts of coal and power, and in turn results in high energy costs. Vertical kilns consume significantly more coal than rotary kilns, imposing a significant cost disadvantage to the producer over rotary kilns given recent increases in coal and electricity prices. Vertical kilns also discharge more pollutants than rotary kilns. Vertical kiln plants constantly risk shutdown due to their greater exposure to power shortages and the price volatility of coal and electricity.

The PRC Government has issued a series of regulations intended to phase out vertical kilns. On October 17, 2006, the NDRC issued the “Policy on Cement Industry Development” (水泥工業產業發展政策), which outlaws the establishment of new production centers using vertical kilns and less advanced technologies. This policy further stated that by the end of 2008, kilns that use obsolete technologies should be replaced, and that the production quota of vertical kilns should be further reduced. The policy explicitly stated that regions with capacity should shut down all vertical kilns by the end of 2008, although the policy did not specifically name any regions. On February 18, 2007, the NDRC issued the “Notice Regarding Replacement of Obsolete Cement Production Capability” (關於做好淘汰落後水泥生產能力有關工作的通知), which restated the NDRC’s October 17, 2006 Policy.

Further curbing the use of vertical kilns, various new regulations require higher quality cement for large scale infrastructure and high-rise buildings, which generally rotary kilns can produce. Addressing environmental concerns, the PRC Government offers tax rebates to cement producers that demonstrate a 30% recycling rate for raw materials. Such tax rebates favor rotary kilns, as vertical kilns have difficulties attaining such rates of raw material recycling.

Consolidation in a fragmented market

China’s cement industry is highly fragmented. According to the China Cement Association, the aggregate annual production capacity of the 10 largest PRC cement producers accounted for approximately 20.1% of the

⁽¹⁾ Established in 1997, China Cement is an electronic marketplace and information center for PRC cement enterprises. China Cement offers informational resources, industry reports and selling, marketing and advertising opportunities for its members.

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total capacity in China at the end of 2008 and the average annual cement production capacity in China was 0.35 million tons per producer in 2008, much less than the global average outside China.

Major PRC cement producers have recently accelerated consolidation and increased their market share. The PRC Government's policies have supported larger and more efficient cement producers, and will likely target smaller-scale cement companies for further consolidation and acquisitions.

The PRC Government has assisted the consolidation trend with the issuance of several recent regulations. The NDRC issued the Specialized Plan for Developing the Cement Industry (水泥工業發展專項規劃) on October 17, 2006, and openly favored consolidation, mergers and acquisitions for efficient enterprises, and encouraged larger enterprises to acquire their smaller competitors and called for the closing of small and excessively polluting factories. The NDRC's goal, noted in the Policy on Cement Industry Development, also issued on October 17, 2006, is to reduce the number of cement producers to 2,000 by 2020. On December 31, 2006, the NDRC, the Ministry of Land and Resources and the PBOC jointly issued a notice listing 12 national and 48 local cement companies, including our Group, that would receive priority project approvals, land use right grants and credit approvals when seeking project investments or mergers and acquisitions.

Increased Focus on Environmental Protection

The PRC Government has implemented new environmental regulations to reduce emissions and noise pollution in the production of cement. These efforts have resulted in the increased use of rotary kilns and NSP technology and the decrease in energy consumption, production costs and environmental pollution. Recent improvements in related technologies have increased energy savings and environmentally friendly production processes, reducing energy consumption in the cement clinker production process across the industry. According to China Building Materials News⁽¹⁾, energy consumption per kilogram of clinker (kJ/kg) produced was 3,810 kJ/kg and 3,703 kJ/kg for 2006 and 2007, respectively. Dry process kilns with capacities of over 4,000 tons per day used significantly lower energy, consuming 3,356 kJ/kg and 3,305 kJ/kg for 2006 and 2007, respectively. There are no similar statistics available for 2008. According to the China Cement Association, China had 922 NSP production lines in operation at the end of 2008, of which 101 NSP production lines are situated in Southern China.

According to the April 13, 2006 Notice Regarding Several Opinions for Accelerating Adjustments of Cement Industrial Structure (關於加快水泥工業結構調整的若干意見的通知) issued by the PRC Government, by the end of 2010, the heat consumption for producing clinker with NSP should be reduced from 130 kg/ton to 110 kg/ton of coal equivalent, the percentage of production lines with residual heat power generation should reach 40% and utilization rate of limestone reserves should be increased from 60% to 80%.

In recent years, China's cement research institutions have developed key technologies for decreasing or eliminating toxins from substances that have previously been considered hazardous so that they may be recycled and reused in kilns. This increases emphasis on a cement producer's ability to recycle what was formerly treated as a waste by-product into reusable raw materials or fuel. These technologies have been implemented with satisfactory results, and have encouraged further development of recycling techniques in the cement industry.

⁽¹⁾ China Building Materials News, a daily newspaper, was established in April 1986 and is operated under the guidance of the China Building Materials Industry Association. China Building Materials News is operated by the Economic Daily Press Group, with the approval of the CCP Publicity Department and the General Administration of Press and Publication of China. China Building Materials News showcases China's building materials industry and provides an insight into China's building trends, recent events and industry outlook.

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Cement and Concrete Markets in Guangdong, Guangxi and Fujian

Due to the bulky product nature and high transportation costs, the market for cement products is regionalized. Production facilities are generally located near customers and suppliers to keep transportation costs low. Prices of cement products are predominantly influenced by local supply and demand conditions. The profitability of cement producers in China varies significantly by region. The table below ranks China's key provinces, municipalities and autonomous regions in terms of cement and ready mixed concrete production volume in 2008. Information regarding regional cement and ready mixed concrete consumption in China is not readily available.

Cement				Ready Mixed Concrete			
No.	Location	Production Volume (in millions of tons)	Percentage of Total Production Volume (%)	No.	Location	Production Volume (in millions of m ³)	Percentage of Total Production Volume (%)
1.	Shandong	138.9	10.0	1.	Jiangsu	120.1	17.4
2.	Jiangsu	126.8	9.1	2.	Zhejiang	78.2	11.3
3.	Henan	102.7	7.4	3.	Guangdong	75.0	10.9
4.	Zhejiang	102.1	7.4	4.	Shanghai	55.3	8.0
5.	Guangdong	94.8	6.8	5.	Shandong	47.7	6.9
6.	Hebei	89.5	6.4	6.	Liaoning	37.1	5.4
7.	Hubei	61.7	4.4	7.	Beijing	36.7	5.3
8.	Sichuan	60.7	4.4	8.	Fujian	22.8	3.3
9.	Hunan	60.4	4.4	9.	Chongqing	21.1	3.0
10.	Anhui	59.2	4.3	10.	Henan	20.6	3.0
11.	Jiangxi	52.7	3.8	11.	Anhui	19.8	2.9
12.	Guangxi	51.9	3.7	12.	Shanxi	17.6	2.5
13.	Fujian	45.3	3.2	13.	Tianjin	17.5	2.5
14.	Liaoning	40.7	2.9	14.	Sichuan	14.8	2.1
15.	Yunnan	38.6	2.8	15.	Shaanxi	13.4	1.9
Total		1,126.0	81.0	Total		597.7	86.6

Source: China Cement Association⁽¹⁾

In 2008, production volume of cement in Guangdong, Guangxi and Fujian, accounted for approximately 13.8% of national cement production. Production volume of ready mixed concrete in Guangdong, Guangxi and Fujian, accounted for approximately 15.7% of national ready mixed concrete production. Total production volumes of cement were 94.8 million tons, 51.9 million tons and 45.3 million tons for Guangdong, Guangxi and Fujian, respectively. Total production volumes of ready mixed concrete were 75.0 million cubic meters, 10.8 million cubic meters and 22.8 million cubic meters for Guangdong, Guangxi and Fujian, respectively.

⁽¹⁾ The China Cement Association was established on February 25, 1987. The China Cement Association represents the cement industry, which includes 4,000 cement enterprises with 1.2 billion tons of cement production. Upon the PRC Government's appointment, the China Cement Association assists in the formulation of strategic planning for industry development, industry policies and industry standard specifications, and organizes the implementation and promotion thereof. The China Cement Association also handles procedures for various enterprises' production and operation permits and relevant examination work, and plays a role as the bridge and link between the PRC Government and cement and building enterprises in China.

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The table below sets forth the GDP growth rate, the FAI growth rate and the cement production volume in Guangxi, Guangdong, Fujian and China for the periods indicated.

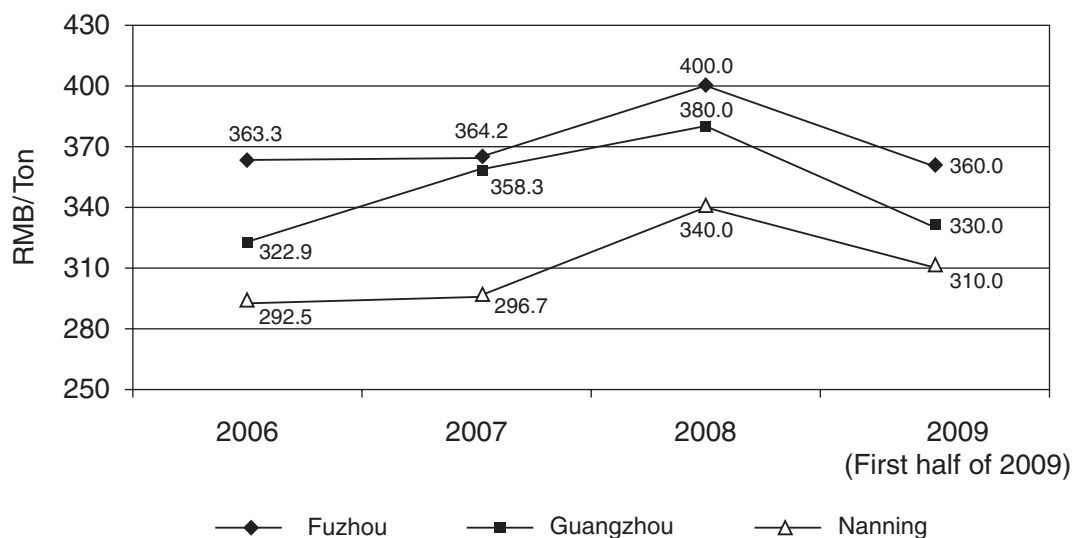
	Year ended December 31,			CAGR	Six months ended June 30,
	2006	2007	2008	2006-2008	2009 ⁽¹⁾
GDP growth rate (%):					
Guangxi	13.6	15.1	12.8	21.9	13.0
Guangdong	13.8	14.7	10.1	17.2	7.1
Fujian	14.8	15.1	13.0	20.1	8.5
China	11.6	13.0	9.0	19.1	7.1
FAI growth rate (%):					
Guangxi	27.0	32.2	27.2	29.7	57.7
Guangdong	16.7	18.0	16.5	17.4	15.5
Fujian	38.0	38.7	22.3	30.3	19.8
China	23.9	24.8	25.5	25.2	33.5
Cement production volume (in millions of tons):					
Guangxi	36.6	43.5	51.9	19.1	22.2
Guangdong	88.5	97.8	94.8	3.5	44.3
Fujian	33.4	44.2	45.3	16.5	24.6
China	1,236.8	1,360.0	1,388.4	2.9	734.6

Source: China Statistical Yearbook 2008, National Bureau of Statistics of China, Statistical Bureaus of Guangxi, Guangdong and Fujian, China Concrete Consulting, China Cement Association and China Building Material Industry Association.

(1) Percentages listed represent comparisons against the same period of the previous year, unless otherwise indicated.

The table below shows the average price in recent years of Ordinary Portland Cement in the cities of Fuzhou (Fujian), Guangzhou (Guangdong) and Nanning (Guangxi). We feature the average price of Ordinary Portland Cement since it is the source of the majority of our cement turnover and in turn highly indicative of our business. Fuzhou, Guangzhou and Nanning are the capital cities and major business centers of their respective provinces. We believe that prices of Ordinary Portland Cement from these capital cities represent accurate average prices for their respective provinces. The PRC concrete market is relatively new and highly fragmented. As a result, it is difficult to present accurate regional concrete prices.

Average Prices of Ordinary Portland Cement (PO42.5)



Source: China Cement Association

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In Fuzhou, the price per ton of Ordinary Portland Cement increased from RMB363.3 in 2006, to RMB364.2 in 2007 and to RMB400.0 in 2008. This increase in 2006, 2007 and 2008 was due to the increased demand for cement associated with increased FAI in Fujian. For the first half of 2009, price per ton of Ordinary Portland Cement experienced a sharp drop to RMB360.0 as a result of a sharp decrease in real estate investments in Fujian for the first half of 2009. For the first six months of 2009, real estate investments in Fujian fell 19.3%. In Guangdong, the price per ton of Ordinary Portland Cement increased from RMB322.9 in 2006, to RMB358.3 in 2007 and to RMB380.0 in 2008. The steady increase in 2006 and 2007 was the result of stabilization in clinker production capacity during this period. Price per ton of Ordinary Portland Cement in Guangzhou surged in 2008 as a result of a general reduction in production volume of cement in Guangdong in 2008 in light of less anticipated demand due to the completion of a number of projects. Price per ton of Ordinary Portland Cement in Guangzhou also experienced a sharp fall to RMB330.0 in the first half of 2009, primarily as a result of a sharp reduction of 15.4% in real estate investments in Guangdong for the first six months of 2009. In Nanning, the price per ton of Ordinary Portland Cement remained steady at RMB292.5 in 2006 with only a slight increase to RMB296.7 in 2007 due to the steady increase of FAI in Guangxi in 2006 and 2007. Prices sharply increased in 2008 to RMB340.0 per ton of Ordinary Portland Cement as a result of increased export of cement from Guangxi to Guangdong. Similar to Fuzhou and Guangzhou, the price per ton of Ordinary Portland Cement in Nanning decreased sharply to RMB310.0 for the first half of 2009. This decrease was primarily attributable to the macroeconomic adjustments in the first half of 2008, and the financial crisis in the second half of 2008, which led to a decline in real estate investments. Guangzhou's increase in price per ton of Ordinary Portland Cement did not increase as rapidly as those prices of Fuzhou and Nanning since Guangdong's FAI increased at a lesser rate than the FAI of Fujian and Guangxi. Prior to and at the commencement of the Track Record Period, from 2004 to 2006, conditions in the building materials sectors in China changed significantly due principally to measures taken by the PRC Government to curb excessive fixed assets investment and the substantial increase in production and distribution costs due principally to sharply increased coal and oil prices. This resulted in pressure on the prices of our products in 2006.

GUANGXI

Guangxi has experienced significant growth during the years ended December 31, 2006, 2007 and 2008. During this period, both the GDP and FAI of Guangxi experienced growth rates that were consistently above the national averages, which in turn contributed to the cement industry's growth in the region. Guangxi's GDP increased from approximately RMB482.9 billion in 2006, to approximately RMB595.6 billion in 2007 and to approximately RMB717.2 billion in 2008. For the first six months of 2009, Guangxi's GDP was RMB330 billion, an increase of 13.0% over the same period of 2008. Guangxi's FAI increased from approximately RMB224.7 billion in 2006 to approximately RMB292.7 billion in 2007 and to approximately RMB377.8 billion in 2008. For the first six months of 2009, Guangxi's FAI increased 57.7% against the same period of 2008. Guangxi's cement production volume increased from 36.6 million tons in 2006 to 43.5 million tons in 2007 and to 51.9 million tons in 2008. For the first six months of 2009, Guangxi's cement industry produced 22.2 million tons of cement, an increase of 30.0% against the same period of 2008. At the end of 2008, Guangxi had a population of 47.68 million permanent residents and had 232 cement companies, among which were Anhui Conch Cement Company Limited, Guangxi Yufeng Group Limited, Taini Cement (Guigang) Company Limited and our Group.

GUANGDONG

The Guangdong economy has experienced significant growth during the years ended December 31, 2006, 2007 and 2008. Guangdong's GDP increased from approximately RMB2.6 trillion in 2006 to approximately RMB3.1 trillion in 2007 and to approximately RMB3.6 trillion in 2008. For the first six months of 2009, Guangdong's GDP was RMB1.65 trillion, an increase of 7.1% over the same period of 2008. FAI in Guangdong increased from RMB811.7 billion in 2006 to RMB959.7 billion in 2007 and to RMB1,118.1 billion in 2008. For the first six months of 2009, Guangdong's FAI increased 15.5% against the same period of 2008. Such growth in

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the economy and foreign investment has contributed to the expansion of the cement market in recent years. During the same period, Guangdong's cement industry produced 88.5 million tons in 2006, 97.8 million tons in 2007 and 94.8 million tons in 2008. This decrease between 2007 and 2008 was primarily the result of increased imports of cement into Guangdong from Guangxi. For the first six months of 2009, Guangdong's cement industry produced 44.3 million tons of cement, a slight increase of 4.7% from the same period of 2008. At the end of 2008, Guangdong had a population of 95.4 million, ranking first in China, and had 431 cement companies, among which were Yingde Conch Cement Co., Ltd., Guangdong Tapai Group Co., Ltd. and our Group.

In accordance with the Eleventh Five-Year Plan for 2006 to 2010, the Guangdong provincial government announced plans to invest RMB432 billion in transportation projects, including more than 2,000 kilometers of new highways and more than 1,100 kilometers of new railroads. In addition, over 500 kilometers of light rail is expected to be constructed. Guangdong's new Baiyun International Airport is expected to begin a second phase of construction, the Shenzhen International Airport is expected to be expanded and a new airport, the Chao-Shan Civil Airport, is expected to be built. RMB38 billion is expected to be invested in large-scale waterworks projects, and approximately 14,142 kilometers of electric grid will be constructed. All of these projects will create further growth opportunities for cement suppliers in Guangdong.

FUJIAN

The GDP of Fujian increased from RMB750.2 billion in 2006 to RMB916.0 billion in 2007 and to RMB1,082.3 billion in 2008. For the first six months of 2009, Fujian's GDP was RMB473.9 billion, an increase of 8.5% over the same period of 2008. During the same period, FAI in Fujian increased steadily from RMB311.5 billion in 2006 to RMB432.2 billion in 2007 and to RMB528.7 billion in 2008. For the first six months of 2009, Fujian's FAI increased 19.8% against the same period of the previous year. Fujian's cement industry produced 33.4 million tons in 2006, 44.5 million tons in 2007 and 45.3 million tons in 2008. For the first six months of 2009, Fujian's cement industry produced 24.6 million tons of cement, a 8.7% increase against the same period of 2008. At the end of 2008, Fujian had a population of 35.1 million and had 245 cement companies, among which were Fujian Cement Inc., Fujian Jinniu Cement Co., Ltd. and our Group.

In accordance with the Eleventh Five-Year Plan for 2006 to 2010, the Fujian provincial government plans to add two 100 million ton capacity ports in Fuzhou and Xiamen. The Fujian provincial government aims to have port capacity for 20 million passengers as well as more than 6 inter-province rail lines (with over 2,500 km of rail lines) by 2010. In addition, Fujian intends to add more than 20 inter-province highways, including more than 2,000 km of freeways. Fujian's plans for expansion in transportation and urban construction are expected to significantly increase demand for cement and concrete. Moreover, the Fujian provincial government plans to expand its capacity for power generation. We expect that this increased capacity will assist cement and concrete suppliers to meet the increased demand for construction resulting from the Eleventh Five-Year Plan.

The Hong Kong Concrete Market

The demand for concrete is closely related to the level of building and construction activity in Hong Kong. In 2008, the gross value of construction work performed by main contractors was approximately HK\$98,884 million, an increase of 6.5% compared to the same period in 2007 and representing approximately 5.9% of Hong Kong's GDP for that year, of which HK\$32,899 million related to private sector sites and HK\$15,295 million related to public sector sites. Private sector work involves residential, commercial and industrial buildings, together with some privately financed infrastructure facilities. Public sector work involves, among others, infrastructure projects, government buildings and public housing. Public sector building and construction contracts in Hong Kong are generally subject to open tender to a list of approved contractors. The government generally awards these contracts based on tender prices and other relevant factors, including the proven abilities of the bidders to meet the government's financial criteria and other requirements with respect to quality and completion dates.

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The table below sets out the gross value of construction work performed by main contractors in the private and public sectors in Hong Kong in the years indicated.

Year	Quarter	Private sector ^(note 1)	Public sector ^(note 2)
		(HK\$ Million)	
2005		30,043	24,154
2006		28,107	18,249
2007		31,581	15,340
2008		32,899	15,295
2009	Q1	7,448	3,715

Source: Hong Kong Census and Statistic Department

Notes:

- (1) Includes projects commissioned by private developers. Projects under the private sector participation scheme are also included.
- (2) Included projects commissioned by the Government of the Hong Kong Special Administrative Region, MTR Corporation Limited and Airport Authority. Projects under home ownership scheme, which are commissioned by the Housing Authority, are also included. The above table excludes the figures for a category which the Hong Kong and Statistics Department labeled as “others.”

The gross value of construction work performed by main contractors in Hong Kong ranged from HK\$54,197 million to HK\$48,194 million between 2006 and 2008. Due to the recent decline in the value of private residential buildings in Hong Kong as a result of the decline in the global economy, our Directors expect that the performance of our Group’s concrete business in Hong Kong, will be more dependent on the public sector, in particular, contracts for infrastructure projects in Hong Kong.

The future growth of the building and construction industry in Hong Kong depends primarily on the continued availability of major construction projects. However, these projects are in turn dependent on various factors such as, and in particular, the government’s infrastructure planning and the general outlook of Hong Kong’s economy. The Hong Kong Government recently cited infrastructure development as a driving force for Hong Kong’s development and the Hong Kong Government is committed to invest in infrastructure projects. The Hong Kong Government has announced that it will implement ten major infrastructure projects, including among others, the Hong Kong section of the Guangzhou-Shenzhen Hong Kong Express Rail Link transport infrastructure project, the West Kowloon Cultural District strategic project and Hong Kong-Zhuhai-Macao Bridge in October 2007.

Our Directors believe that there are nine major concrete producer competitors in Hong Kong. An industry organization called The Concrete Producers Association of Hong Kong Limited (“CPA”) was formed in 1993 and its main functions are to provide technical support to local suppliers and promote the concrete business. It also provides a forum for the members of the association to discuss industry-related issues. Currently, there are nine members in the CPA including Redland Concrete. Redland Concrete’s sales and price of concrete in 2008 in Hong Kong were approximately 490,545 cubic meters and HK\$644.6 per cubic meter, respectively.

REGULATORY OVERVIEW

This section summarizes the principal PRC laws and regulations which are relevant to our business and operations. These include the laws and regulations relating to the cement and concrete business of our Group in the PRC, and the relevant mineral resources, environmental protection and labor issues. This section serves as a summary and is not an exhaustive analysis of PRC law surrounding our business and operations.

GENERAL

Our Company was established by China Resources Enterprise, Limited, a subsidiary controlled by China Resources Holdings, under the laws of the Cayman Islands on March 13, 2003. China Resources Holdings is a company with limited liability established in Hong Kong on July 8, 1983 by MOFCOM under the names of 12 companies which were wholly-owned by MOFCOM. China Resources Holdings is a major overseas PRC state-owned conglomerate under the administration of the PRC central government with SASAC as its current ultimate investor. Our Company was listed on the Hong Kong Stock Exchange on July 29, 2003 and withdrew its listing on July 26, 2006. Since our withdrawal from listing, China Resources Holdings, through Smooth Concept, has an indirect 99.99% interest in our Company.

According to Concord & Partners, 36 of our PRC subsidiaries (whose equity interest will be transferred as part of the Reorganization and have met the relevant restructuring requirements) have acquired necessary approvals/licenses under PRC law and regulations; one domestic company has submitted equity transfer applications to the relevant governmental authorities for approval. Concord & Partners is not aware of any material non-compliance with PRC law in respect of the said equity transfers, nor is aware of any legal barriers which might lead to the failure of acquiring the relevant governmental approvals.

Concord & Partners, our PRC counsel, confirmed that, save as disclosed in this document, each of our PRC subsidiaries has obtained the necessary permits, licenses and qualifications in all material aspects of their current operations, and such permits, licenses and qualifications are effective as at the Latest Practicable Date and our PRC subsidiaries which are engaged in mine exploitation operations and activities have obtained mining permits and safe production licenses and have duly paid resource taxes in all material respects of the current operations. Our Directors confirmed that, with the support of the PRC legal opinion from Concord & Partners, save as disclosed in this document, our PRC subsidiaries have complied with, in all material respects, the relevant regulatory requirements in the PRC for their operations as at the Latest Practicable Date. Our Directors are not aware of any material non-compliance of our PRC subsidiaries with any PRC laws and regulations regarding environmental protection, taxation, safe production, mineral resources and labor management. In addition, our Directors are of the view that the Rich Team Group has complied with, in all material respects, the relevant regulatory requirements and has adopted sufficient measures to ensure on-going compliance with the relevant regulatory requirements in Hong Kong.

THE CEMENT INDUSTRY

Industry Policy

The “Interim Provisions on Promoting Industrial Structure Adjustment” (促進產業結構調整暫行規定) was promulgated by the State Council and the “Guiding Catalogue of Industrial Structure Adjustment (2005)” (產業結構調整指導目錄(2005年本)) was promulgated by the NDRC on December 2, 2005. Both measures included the following in the “encouraged” category of industries: the development of the NSP technology, the equipment and ancillary materials for the production of cement and clinker with a daily production capacity of 4,000 tons or more (daily production capacity of 2,000 tons in the western part of the PRC) and the construction of cement grinding stations with annual production capacity of 1 million tons or more. Vertical kilns, dry hollow kilns, Lepol kilns, wet process kilns, and newly-built new dry process clinker production lines with a daily

REGULATORY OVERVIEW

production capacity of 1,500 tons or below belong to the “restricted” category of industries. Mechanical vertical kiln cement production lines of 2.2 meters in diameter or less, dry hollow kiln cement production lines of 2.5 meters in diameter or less (except for those that produce special cement), cement grinding equipment of 1.83 meters in diameter or less, earthen (egg-shaped) kilns, ordinary vertical kilns and other outdated kilns belong to the “eliminated” category of industries.

Investments in the eliminated category are prohibited. All regions, departments and enterprises concerned shall adopt strong measures to eliminate the prescribed production technology, equipment and products within a prescribed timeframe. For enterprises which fail to do so, the local people’s governments at all levels and the competent authorities shall order suspension or closure in accordance with relevant PRC laws and regulations. If the products of such enterprises are regulated under the production permit system, the competent authorities shall revoke the production permits in accordance with the law. The industry and commerce administration shall supervise and urge the enterprises to undergo procedures for modification or cancellation of their registration in accordance with the law. The environmental protection and management authorities shall revoke the discharge licenses of such enterprises. If the relevant requirement is not fulfilled, the person with direct responsibilities and the related leadership shall be pursued for liability.

Pursuant to the “Policies on the Development of Cement Industry” (水泥工業產業發展政策), promulgated by the NDRC and effective on October 17, 2006, the State encourages local governments and enterprises to eliminate technology that has low production capacity and to promote the development of cement production using the NSP technology. The government supports projects for the construction of cement production plants with a daily production capacity of 4,000 tons or more using the NSP technology in areas with appropriate resources, the construction of large-scale clinker production bases and the construction of large-scale cement grinding stations at locations near the relevant markets. By the end of 2008, every production enterprise shall discontinue using production technology and equipment that have low production capacity (such as the dry hollow kilns and wet process), further reduce the production capacity vertical kilns, and where possible, eliminate all vertical kilns.

Production License

Pursuant to the “Regulations of the People’s Republic of China on the Administration of Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例)” or the “Production License Regulations”, promulgated by the State Council and effective on September 1, 2005, and the “Measures for the Implementation of the Regulations of the People’s Republic of China on the Administration of Production License for Industrial Products (中華人民共和國工業產品生產許可證管理條例實施辦法)”, promulgated by the General Administration of Quality Supervision, Inspection and Quarantine and effective on November 1, 2005, the State adopted a production license system for the administration of major industrial products which affect public safety, human health, life and property. The catalogue of industrial products in respect of which the State adopts the production license system shall be formulated by the authorities in charge of industrial product production licenses under the State Council and the relevant authorities of the State Council, and shall be subject to approval by the State Council. Any enterprise without a production license shall not produce any product governed under the production license system, and any unit or individual shall not sell or use such products in operating activities that are within these categories, and any unit or individual shall not sell or use any products in operating activities which are without production licenses. Pursuant to the prevailing “Catalogue of Production Licenses for Industrial Products” (工業產品生產許可證目錄), cement is one of the industrial products which requires a production license.

The General Administration of Quality Supervision, Inspection and Quarantine is responsible for the centralized administration of the production licenses of industrial products across China. Authorities at the county level and above in charge of production licenses for industrial products are responsible for the

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administration of production licenses for industrial products within their own jurisdictions, and they are empowered to impose penalties pursuant to the relevant provisions for acts that violate the stipulations of production licenses.

Bulk Cement

Pursuant to the “Administrative Measures of Bulk Cement” (散裝水泥管理辦法) jointly promulgated by the MOFCOM, Ministry of Finance, Ministry of Construction, Ministry of Railways, Ministry of Transportation, General Administration of Quality Supervision, Inspection and Quarantine, and SAEP on March 29, 2004, the authorities designated by the local people’s government at the county level and above are responsible for the supervision and administration of bulk cement production within their own jurisdictions. Cement production enterprises shall produce bulk cement only after obtaining relevant production licenses. Entities and individuals engaged in the production, operation and utilization of bulk cement shall adopt measures to ensure that the facilities and sites for production, loading and unloading, delivery, storage and utilization are in compliance with safety and environmental protection requirements.

Residual Heat Power Generation

Pursuant to the “Guiding Catalogue of Industrial Structure Adjustment (2005)” (產業結構調整指導目錄(2005年本)), the production of clinker with a daily production capacity of 2,000 tons or above using the new dry process employing residual heat power generation technology belongs to the “encouraged” category of industries.

THE CONCRETE INDUSTRY

Pursuant to the “Provisions on the Administration of Qualifications of Construction Enterprises” (建築業企業資質管理規定), promulgated by the Ministry of Construction on September 1, 2007, and the “Provisions on the Administration of Foreign-funded Construction Enterprises” (外商投資建築業企業管理規定), promulgated by the Ministry of Construction and MOFCOM on December 1, 2002, every foreign investment enterprise established in China by foreign investors and engaging in the production and sale of concrete shall obtain a qualification certificate of construction enterprise from the construction administration.

MINERAL RESOURCES

Acquisition of Mining Rights

Pursuant to the “Mineral Resources Law of the People’s Republic of China” (中華人民共和國礦產資源法) promulgated on March 19, 1986 and amended on August 29, 1996 by the Standing Committee of the National People’s Congress and the “Implementation Rules of the Mineral Resources Law of the People’s Republic of China” (中華人民共和國礦產資源法實施細則) promulgated on March 26, 1994 by the State Council, mineral resources in China are owned by the State. For any exploration and exploitation of mineral resources, an application shall be made respectively in accordance with the law, and, upon approval, exploration rights shall be obtained and registration procedures shall be completed, except for exploration carried out by a mining enterprise in its prescribed mining area and for the purpose of its production activities, provided that the mining enterprise has obtained exploitation rights through an application made in accordance with the law. An entity engaging in the exploration and exploitation of mineral resources must meet certain qualifications.

A system whereby the exploration rights and mining rights shall be obtained with compensation has been adopted by the State; however, the State may, in light of specific conditions, prescribe reduction of, or exemption

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from, the compensation for acquiring the exploration rights and mining rights. The specific measures and implementation procedures shall be prescribed by the State Council. Any party that mines mineral resources must pay resource taxes and resource compensation in accordance with the relevant regulations of the State.

The geology and mineral resources administration under the State Council shall be in charge of the supervision and administration of the exploration and exploitation of mineral resources across China. The geology and mineral resources administration of the people’s governments of provinces, autonomous regions, and municipalities directly under the Central Government shall be in charge of the supervision and administration of the exploration and exploitation of mineral resources in their own jurisdictions. The State has adopted a unified block registration system of mineral resources exploration. The geology and mineral resources administration of the State Council shall be in charge of the registration of mineral resources exploration. The State Council may authorize relevant authorities to take charge of the registration of exploration of specific mineral species.

An applicant seeking to establish a new mining enterprise must meet certain qualification requirements set forth by the State, and shall obtain government approval. An applicant must provide details on the boundaries of the mine and of the mining area, mineral products exploration particulars, the mine design, mining plan, production technology, safety and environmental protection measures and so forth, and the relevant supporting documents.

Transfer of Mining Rights

Pursuant to the “Administrative Measures of the Transfer of Exploration and Exploitation Rights” (探礦權採礦權轉讓管理辦法), promulgated by the State Council on February 12, 1998 and the “Interim Provisions on the Administration of the Transfer of Mineral Property Rights” (礦業權出讓轉讓管理暫行規定), promulgated by the Ministry of Land and Resources on November 1, 2000, exploration rights and exploitation rights are property rights. The owner of mining rights shall have the right to the possession, use, income and disposal of its mining rights in accordance with the law. The entity with exploration rights has priority in obtaining exploitation rights in the area it explores. The entity with exploration rights, after a minimum amount of investment in the exploration, may transfer its exploration rights upon approval by relevant authorities. If a mining enterprise which has obtained exploitation rights needs to change the owner of the exploitation rights as a result of merger or separation, establishment of an equity or co-operative joint venture with others, sale of enterprise assets, or other circumstances leading to a change of the ownership of enterprise assets, the mining enterprise may transfer its exploitation rights upon approval in accordance with the law. Except for the above restrictions, the entity of exploitation rights may transfer its rights through sale, contribution to capital upon valuation, cooperation, and restructuring and system reform. The geology and mineral resources administration under the State Council and of the people’s governments of provinces, autonomous regions, and municipalities directly under the Central Government are the examination and approval authorities with respect to transfer of exploration rights and exploitation rights.

Mining Safety

Pursuant to the “Mining Safety Law of the People’s Republic of China” (中華人民共和國礦山安全法), promulgated by the Standing Committee of the National People’s Congress and effective on May 1, 1993, and the “Regulation for the Implementation of the Mining Safety Law of the People’s Republic of China” (中華人民共和國礦山安全法實施條例), promulgated and effective on October 30, 1996, mining enterprises shall install facilities to ensure safe production, establish and enhance safety management systems, and take effective measures to improve the work conditions of staff and workers and to strengthen the safety administration of mines. The mining enterprises administrations of the people’s governments at the county level and above shall be responsible for the administration of safety measures in mines. The design of mine construction engineering work shall comply with the safety rules for mines and technological standards for the mining industry, and shall

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be subject to approval by the mining enterprises administration prescribed by the State. Before commencement of operation or use, mine construction engineering work shall go through safety facilities pre-approval inspection in accordance with the provisions of the relevant laws and regulations, and shall not be put into operation or use until the inspection is passed. Any breach of the above provisions may result in fines, revocation of exploitation license or operation license or other penalties.

Pursuant to the “Regulations on Safety Production Licenses” (安全生產許可證條例), promulgated by the State Council and effective on January 13, 2004, the State adopts a safety license system in respect of mining enterprises, and a mining enterprise which fails to obtain a safety license shall not engage in production activities.

We have obtained safety permits for our limestone quarries from the Guangxi Department of Safe Production Supervision Administration. All permits are renewable and specify “open-pit cement mining” for their permitted scope. Additional details for these permits are as follows:

Name of Quarry	Location	Mining Right Owner	Safe Production Permit	Expiration Date
Hejing Limestone Quarry 河景石灰石礦	Pingnan, Guangxi	Pingnan Cement	(Gui) FM An Xu Zheng Zi [2006] 00-04117	The license expired in August 2009 ⁽¹⁾
Dingxiangshan (North) Limestone Quarry 定祥山石灰石礦北區	Guigang, Guangxi	Guigang Cement	(Gui) FM An Xu Zheng Zi [2009] ZY-0073	June 25, 2012
Dingxiangshan (South) Limestone Quarry 定祥山石灰石礦南區	Guigang, Guangxi	Guigang Cement	(Gui) FM An Xu Zheng Zi [2008] 00-00212	June 28, 2011
Fenghuangshan Limestone Quarry 鳳凰山石灰石礦	Binyang, Guangxi	Hongshuihe Cement	(Gui) FM An Xu Zheng Zi [2006] 00-1848	April 20, 2012
Longling Limestone Quarry 龍嶺石灰石礦 . . .	Binyang, Guangxi	Hongshuihe Cement	(Gui) FM An Xu Zheng Zi [2006] 00-1849	April 20, 2012
Goutoushan Limestone Quarry 狗頭山灰岩礦 . . .	Nanning, Guangxi	Nanning Cement	(Gui) FM An Xu Zheng Zi [2008] 00-0155	May 11, 2011

⁽¹⁾ The operation of Pingnan Cement is not affected by the expiration of the license, as it is currently undertaking the procedure to renew such safe production permit in accordance with applicable regulations our Directors anticipate that such procedure will be completed by about October 2009. Concord & Partners, our PRC legal adviser, has opined that there is no legal impediment for our Group to renew such permit or potential penalty for our current operation in Pingnan Cement.

Geological Environmental Protection of Mines

Pursuant to the “Provision on the Geological Environmental Protection of Mines” (礦山地質環境保護規定) promulgated by the Ministry of Land and Resources on March 2, 2009, the applicant for exploitation rights is required to work out a plan for geological environmental protection and recovery, and to submit the plan to the administrative departments of state land and resources for approval. Furthermore, the owner of exploitation rights shall pay cash deposits for geological environmental recovery.

Taxation Relating to the Mining Industry

Pursuant to the “Interim Regulations on Resource Tax of the People’s Republic of China” (中華人民共和國資源稅暫行條例), promulgated by the State Council and effective on January 1, 1994, enterprises and individuals engaging in the mining of mineral resources in the People’s Republic of China shall pay resource taxes. The resource tax applicable to non-metal ores shall be RMB0.5 - 20 per ton or square meter.

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Pursuant to the “Notice on Adjustments to the Applicable Resource Tax Rates of Limestone, Marble and Granite” (關於調整石灰石、大理石和花崗石資源適用稅率的通知), promulgated by the Ministry of Finance and the State Administration of Taxation and effective on July 1, 2003, the applicable rate of limestone resource tax has been adjusted from RMB2 per ton to RMB0.5 - 3.0 per ton.

Pursuant to the “Provisions on the Administration of the Levying of Mineral Resource Compensation Charges” (礦產資源稅補償費徵收管理規定), promulgated by the State Council on February 27, 1994 and amended on July 3, 1997, mineral resource compensation charges shall be levied based on a certain proportion of the sale revenue of mineral products. The resource compensation charges shall be calculated based on the sale revenue of mineral products, the rate of compensation charges and the mining recovery coefficient.

Land Rehabilitation and Reforestation

Under the “Land Administration Law of the People’s Republic of China” (中國人民共和國土地管理法), promulgated by the Standing Committee of the National People’s Congress on June 25, 1986 and amended on December 29, 1988, August 29, 1998 and August 28, 2004, and the “Land Rehabilitation Provisions” (土地復墾規定) promulgated by the State Council and effective on January 1, 1989, if mining activities result in damage to land as a result of improper excavation, collapse or other reasons, the entity and individual using the land must take measures to rehabilitate the land to a usable status in accordance with the relevant provisions of the State. If conditions for rehabilitation do not exist or the rehabilitation does not meet the requirements, a land rehabilitation fee shall be paid, and such fee shall be earmarked for land rehabilitation. The rehabilitated land must meet the rehabilitation standards, and may only be delivered for use upon examination and approval by the land administration and the relevant industry administration. Any enterprise or individual that fails to fulfill its rehabilitation obligations or fails to fulfill its rehabilitation obligations in accordance with provisions shall be ordered by the land administration to take rectification measures within a prescribed time frame, and if no rectification is made upon expiry of the timeframe, the land administration will impose a fine.

In addition, mining enterprises using forest areas in their operations are required to pay reforestation fees to relevant authorities pursuant to the “Forest Law of the People’s Republic of China” (中華人民共和國森林法), the “Regulations for the Implementation of the Forest Law of the People’s Republic of China” (中華人民共和國森林法實施條例) and the “Interim Measures Regarding Payment of Reforestation Fees” (森林植被恢復費徵收使用管理暫行辦法).

ENVIRONMENTAL PROTECTION

General Regulations

Pursuant to the “Environmental Protection Law of the People’s Republic of China” (中華人民共和國環境保護法), promulgated by the Standing Committee of the National People’s Congress and effective on December 26, 1989, the SAEP is empowered to formulate national environmental quality standards. The environmental protection administration of the people’s governments at the county level and above are responsible for monitoring, on a unified basis, the environmental protection work within their jurisdictions. For items which are not governed by any national pollutant discharge standards, the people’s governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate local standards; for items which are governed by national pollutant discharge standards, the people’s governments of provinces, autonomous regions, and municipalities directly under the Central Government may formulate stricter local standards. Local pollutant discharge standards shall be filed with SAEP for the records.

According to the “Opinion on the Enforcement of the Environmental Protection Laws and Prevention of Credit Risk” (關於落實環保政策法規防範信貸風險的意見) promulgated by SAEP, the People’s Bank of China, and the China Banking Regulatory Commission (中國銀行業監督管理委員會) on July 12, 2007, the following

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irregularities will be addressed in accordance with the law: commencement of construction without approval or without approval by an authority at an appropriate level, failure to complete any environmental protection facilities at the same time as the production facility is completed, and commencement of operations without permit and without passing environmental examination and approval. The above irregularities will be reported to the local people’s banks, banking regulatory department and financial institutions. The financial institutions shall, on the basis of the administrative provisions of the State on environmental protection in respect of construction projects and the information disclosed by the environmental protection authority, conduct their examination and approval, disbursement, and supervision and administration of loans stringently. No credit in whatever form shall be granted to any project which has not passed the environmental assessment examination, or the environmental protection facilities of which have not passed the pre-approval inspection. Environmental authorities at all levels shall sanction enterprises in accordance with the law if they have conducted any of the following: excessive discharge of pollutants, excessive total discharge level, discharge of pollutants without obtaining the necessary permits in accordance with the law, discharges in breach of the levels allowed by the license or failure to restore the damaged environment within a prescribed timeframe. These breaches will be reported to the local people’s banks, banking regulatory department and financial institutions. The financial institutions at all levels, when examining enterprises’ application for working capital loans, shall act on the information provided by the environmental protection departments, strengthen the management of credit and take measures to control stringently any lending of loans to enterprises which are in violation of the environmental laws, so as to safeguard against credit risks.

Environmental Impact Assessment

Pursuant to the “Administrative Regulations for the Environmental Protection of Construction Projects” (建設項目環境保護管理條例) promulgated on November 29, 1998, and “Administrative Measures for the Examination and Approval of Environmental Protection Facilities of Construction Projects” (建設項目竣工環境保護驗收管理辦法) promulgated by SAEP on December 27, 2001, and “Environmental Impact Assessment Law of the People’s Republic of China” (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the National People’s Congress on October 28, 2002, enterprises are required to engage institutions with corresponding environmental impact assessment qualifications to provide environmental impact assessment services and reports for submission to the competent environmental protection approval administration. Construction work may only be commenced after such an assessment is submitted to and approved by the environmental protection administrative authority. The construction of pollution prevention and control facilities in a construction project must be designed and commenced simultaneously with the main facility. Pollution prevention and control facilities shall not be put to use until the approval, upon inspection, by the original environmental protection authority which had approved the environmental impact assessment report. An enterprise which fails to submit assessment documents on the environmental impact of a construction project in accordance with the law or which commences construction work without permission will be ordered to cease construction and go through formalities retrospectively within a prescribed timeframe. If the enterprise fails to go through the formalities retrospectively, the enterprise and the person with direct responsibilities are subject to fines or administrative penalties.

Pursuant to the “Classification of Construction Project Lists for Environmental Impact Assessments” (建設項目環境影響評價分類管理名錄) promulgated by the MEP on September 2, 2008, cement manufacturers shall prepare an environmental impact report to fully evaluate the relevant impacts its operations have on the environment, as cement manufacturing may cause significant impacts to the environment.

Pollutant Discharge

Pursuant to the “Environmental Protection Law of the People’s Republic of China” (中華人民共和國環境保護法), promulgated by the Standing Committee of the National People’s Congress and effective on December 26, 1989, the “Law of the People’s Republic of China on the Prevention and Control of

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Water Pollution” (中華人民共和國水污染防治法), promulgated by the Standing Committee of the National People’s Congress on May 11, 1984 and amended on May 15, 1996 and February 28, 2008, the “Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution” (中華人民共和國大氣污染防治法), promulgated by the Standing Committee of the National People’s Congress on September 5, 1987 and amended on August 29, 1995 and April 29, 2000, the “Law of the People’s Republic of China on the Prevention and Control of Solid Waste Pollution” (中華人民共和國固體廢物污染防治法), promulgated by the Standing Committee of the National People’s Congress on October 30, 1995 and amended on December 29, 2004, and local provisions on pollutant discharge, any entity that produces pollutants or other publicly hazardous materials is required to adopt environmental protection measures in its operations and to establish an environmental protection responsibility system. Effective measures must be adopted to prevent and control the pollution and hazards of waste gases, waste water, waste residue, dust or other waste materials. The State adopts a license system for discharge of waste water, waste gases and other major pollutants. Any enterprise or institution which discharges pollutants must obtain a pollutant discharge license and pay a discharge fee. If an entity discharges more than what is permitted by the national or local standards, it shall pay a fee for excessive discharge. If an enterprise has caused severe environmental pollution and has failed to reach the required standards within a prescribed timeframe, a fine may be imposed, or the enterprise may be ordered to suspend or close down its operations.

Concord & Partners, our PRC legal advisers, confirms that under PRC law, in the event that any entity’s production facilities discharge contaminants, such entity is required to apply for, and obtain, a contamination discharge license issued by MEP or the relevant local environmental protection authority. However, the entity’s production facilities are not subject to the registration requirement with MEP or the relevant local environmental protection authorities. Concord & Partners also confirms that besides Shenzhen Concrete, each of our PRC subsidiaries that discharges contaminants has obtained the appropriate contamination discharge licenses. Shenzhen Concrete is in the process of applying for the appropriate contamination discharge license.

Labor Protection

Pursuant to the “Employment Contracts Law of the People’s Republic of China” (《中華人民共和國勞動合同法》) (“ECL”) promulgated by the Standing Committee of the National People’s Congress on January 1, 2008 and the “Implementing Regulations of the PRC Employment Contracts Law” (《中華人民共和國勞動合同法實施條例》) promulgated and effective on September 3, 2008, an employer establishes an employment relationship with an employee from the date when the employee is put to work, and a written employment contract shall be entered into on this same day. If an employment relationship has already been established with an employee but no written employment contract has been entered into simultaneously, a written employment contract shall be entered into within one month from the date the employee commences work. If an employer fails to enter into a written employment contract with an employee for more than one month but less than one year as of the date on which the employment commences, it shall pay the employee twice his/her salary for each month of that period and rectify the situation by subsequently entering into a written employment contract with the employee. If the employee refuses to enter into the written contract with the employer, the employer shall issue a written notice to the employee to rescind the employment relationship, and pay severance to the employee in accordance with relevant provisions of the ECL.

Pursuant to the “Production Safety Law of the People’s Republic of China” (中華人民共和國安全生產法) promulgated by the Standing Committee of the National People’s Congress and effective on November 1, 2002, all mining enterprises and production or operation entities with more than 300 workers shall establish an administrative department for production safety or be staffed with full-time personnel for the administration of production safety, and those entities with workers less than 300 workers shall be staffed with full-time or part-time personnel for the administration of production safety.

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THE CONCRETE INDUSTRY IN HONG KONG

Regulatory Requirement for Concrete Producers in Hong Kong

Concrete producers in Hong Kong are subject to, among other things, general laws governing the operation of any plant facilities including Building Ordinance (Cap. 123 of the Laws of Hong Kong), Water Pollution Control Ordinance (Cap. 358 of the Laws of Hong Kong), Waste Disposal Ordinance (Cap. 354 of Laws of Hong Kong), Air Pollution Control Ordinance (Cap. 311 of Laws of Hong Kong) and Factories and Industries Undertaking Ordinance (Cap. 59 of Laws of Hong Kong).

Building Ordinance (Cap. 123)

The Building Ordinance sets forth the regulations on the planning, design and construction of buildings and associated works. It also provides for the rendering safe of dangerous buildings and land in Hong Kong. Specifically, the Building (Construction) Regulations require all materials used in any building works or street works to be (a) of a suitable nature and quality for the purposes for which they are used, (b) adequately mixed or prepared and (c) applied, used or fixed so as to adequately perform the functions for which they are designed. In addition, the Building (Construction) Regulations also set forth, among others, (a) the strength, the application and the maximum chloride content for designed mix concrete, (b) the minimum cement content of finished concrete, (c) the thickness requirement of concrete cover to reinforcement, and (d) other guidance regarding the quality standards for concrete to be used in Hong Kong. Failure to comply with the Building Ordinance may lead a fine or, in serious cases, imprisonment.

Water Pollution Control Ordinance (Cap. 358)

The Water Pollution Control Ordinance is the main legislation which seeks to control and regulate the pollution of the waters of Hong Kong by ensuring the discharge of sewage and industrial wastewater in an environmentally acceptable manner. To achieve and maintain these water quality objectives, the control of sewage and industrial wastewater discharges is regulated primarily through a licensing system. Failure to comply with the Water Pollution Control Ordinance may lead to a fine or, in serious cases, imprisonment.

Waste Disposal Ordinance (Cap. 354)

The Waste Disposal Ordinance seeks to control and regulate the production, storage, collection and disposal (including the treatment, reprocessing and recycling) of waste of any class or description (such as construction waste and concrete), the licensing and registration of places and persons connected with any such activity as well as the protection and safety of the public in relation to any such activity. Failure to comply with the Waste Disposal Ordinance may lead to a fine or, in serious cases, imprisonment.

Air Pollution Control Ordinance (Cap. 311)

The Air Pollution Control Ordinance empowers the Hong Kong Environmental Protection Department to control air pollution arising from industrial, commercial operations and construction work. In general, any firm engaged in carrying out “notifiable” construction work (such as the construction of the foundation or superstructure of a building) is required to notify the air pollution control authority before commencing any such construction work. In addition, the Air Pollution Control Ordinance sets out the dust control requirement for concrete production process in Hong Kong. Failure to comply with the Air Pollution Ordinance may lead to a fine or, in serious cases, imprisonment.

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Factories and Industries Undertaking Ordinance (Cap. 59)

The Factories and Industries Undertaking Ordinance imposes general duties on proprietors and persons employed at industrial undertakings (such as factories, construction sites and other industrial workplaces) to ensure safety and health standards are met at work.

For example, every proprietor should seek to ensure the safety and health at work of all persons employed by him at an industrial undertaking by, among others, (a) providing and maintaining plant and work systems that do not endanger safety or health, (b) making arrangements for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances, (c) providing all necessary information, instruction, training, and supervision for ensuring safety and health, (d) providing and maintaining safe access to and exit from these workplaces, and (e) providing and maintaining a safe and healthy work environment. Specifically, the Factories and Industries Undertaking Ordinance requires eye protections to be provided to employees that are engaged in breaking, cutting, dressing, carving or drilling of concrete by means of hand tools. Failure to comply with the Factories and Industries Undertaking Ordinance may lead to a fine or, in serious cases, imprisonment.

HISTORY AND REORGANIZATION

HISTORY AND DEVELOPMENT

Overview

Our Company was incorporated in the Cayman Islands on March 13, 2003 for the purpose of becoming the listed holding company of China Resources Holdings' cement and concrete operations. On March 26, 2003, our Company entered into a conditional agreement with China Resources Holdings to acquire its 100% indirect equity interests in Hongshuihe Cement, Dongguan Cement, Dongguan Concrete and Shenzhen Concrete. As a result, Hongshuihe Cement, Dongguan Cement, Dongguan Concrete and Shenzhen Concrete became part of the then listed group.

Our Company, which held the interest of cement and concrete businesses of China Resources Holdings, was listed on the main board of the Hong Kong Stock Exchange on July 29, 2003. The listing was through an introduction so that no funds were raised by our Company as part of the listing. China Resources Holdings was the controlling shareholder of our Company throughout the period during which it was listed on the Hong Kong Stock Exchange. Our Company has expanded through organic growth and acquisitions, notably Pingnan Cement.

On March 29, 2006, China Resources Holdings, through its non-wholly-owned subsidiary, Smooth Concept, requested the Board to put forward to the then Shareholders a proposal regarding a proposed privatization and withdrawal of listing of our Company. Due to the then conditions in the building materials sector, China Resources Holdings considered that the continued expansion of our Group during difficult trading conditions was best carried out as a private company. The privatization of our Company was implemented by way of a scheme of arrangement under Section 86 of the Cayman Companies Law. Upon completion of the scheme of arrangement, our Company became a wholly-owned subsidiary of Smooth Concept and the listing of the Shares on the Hong Kong Stock Exchange was withdrawn on July 26, 2006.

Before the 2003 Listing

Prior to the group reorganization in preparation for our listing on the Hong Kong Stock Exchange in 2003, China Resources Holdings carried out its cement and concrete operations through Hongshuihe Cement, Dongguan Cement, Dongguan Concrete, Shenzhen Concrete and Redland Concrete.

Hongshuihe Cement

On December 16, 2001, Minmetals Holdings and Guangxi Hongshuihe Cement Joint Stock Company Limited entered into a joint venture agreement for the establishment of Hongshuihe Cement. Under the agreement, Minmetals Holdings and Guangxi Hongshuihe Cement Joint Stock Company Limited agreed to invest RMB140.0 million and RMB60.0 million for a 70.0% and 30.0% interest in Hongshuihe Cement, respectively. The capital contribution of Minmetals Holdings was made by cash whereas the capital contribution of Guangxi Hongshuihe Cement Joint Stock Company Limited was made by way of assets, which comprised principally of cement manufacturing facilities, mining rights, railway rights, sea use rights and land use rights then held by it, valued at RMB90.0 million of which RMB60.0 million was treated as a capital contribution to the joint venture and the remaining balance of RMB30.0 million was treated as consideration for the acquisition of assets and settled by Hongshuihe Cement. In preparation of our listing in 2003, on February 25, 2003, Flavour Glory, a subsidiary of China Resources Holdings, entered into a share transfer agreement with Minmetals Holdings to acquire its 70% equity interest in Hongshuihe Cement for HK\$131.9 million. The consideration was determined based on the net asset value of Hongshuihe Cement and was fully settled through current account. The share transfer was approved by the Guangxi government on March 11, 2003 and was completed on March 20, 2003. Such interest was subsequently acquired by our Company through the acquisition of the entire equity interest in Flavour Glory from China Resources Holdings in the same year.

HISTORY AND REORGANIZATION

On February 12, 2003, Hongshuihe Cement and Profit Pool Holdings Limited, an Independent Third Party, entered into a joint venture agreement for the establishment of Zhanjiang Hongshuihe Cement. Under the joint venture agreement, Hongshuihe Cement and Profit Pool Holdings Limited agreed to invest HK\$2,896,800 and HK\$2,783,200 for a 51% and 49% interest in Zhanjiang Hongshuihe Cement, respectively. Zhanjiang Hongshuihe Cement was formed with the purpose of operating a cement grinding plant in Zhanjiang, Guangdong with an annual production capacity of 0.2 million tons. The cement grinding plant commenced production in April 2003.

Dongguan Cement

Dongguan Cement was established on May 23, 1994. At the time of its establishment, Dongguan Cement had a registered capital of US\$12.9 million and was owned as to 51% by CR Metals & Minerals, 36% by Man Fai Tai Holdings Limited and 13% by Dongguan Metals & Minerals. Both Man Fai Tai Holdings Limited and Dongguan Metals & Minerals were Independent Third Parties, while CR Metals & Minerals was a wholly-owned subsidiary of Minmetals Holdings, a wholly-owned subsidiary of China Resources Holdings. The construction of Dongguan Cement's cement plant began in 1994 and was completed in early 1998. The cement plant commenced operation in May 1998.

The registered capital of Dongguan Cement was subsequently increased in early 1995 to HK\$149.0 million. At the same time as the increase of the registered capital, Sumitomo Corporation, Sumitomo Corporation (Hong Kong) Limited and Dongguan Metals & Minerals agreed to subscribe for a portion of the increased registered capital, resulting in the joint venture then being owned as to 51% by CR Metals & Minerals, 20% by Sumitomo Corporation, 5% by Sumitomo Corporation (Hong Kong) Limited, 16% by Man Fai Tai Holdings Limited and 8% by Dongguan Metals & Minerals. Sumitomo Corporation and Sumitomo Corporation (Hong Kong) Limited are Independent Third Parties.

On October 25, 1995, Sumitomo Corporation and Sumitomo Corporation (Hong Kong) Limited transferred an aggregate of 12.5% interest in Dongguan Cement to UBE Industries, Ltd., a company incorporated in Japan and an Independent Third Party. The share transfer was approved by the Guangdong MOFCOM on October 9, 1995. Upon completion of the above transfer, CR Metals & Minerals, Sumitomo Corporation, Sumitomo Corporation (Hong Kong) Limited, Man Fai Tai Holdings Limited, Dongguan Metals & Minerals and UBE Industries, Ltd. held 51%, 10%, 2.5%, 16%, 8% and 12.5% interests in Dongguan Cement, respectively.

On November 6, 2000, CR Metals & Minerals acquired a 16% interest in Dongguan Cement from Man Fai Tai Holdings Limited for approximately HK\$8.4 million. The share transfer was approved by the Dongguan MOFCOM on September 20, 2000. On March 21, 2002, CR Metals & Minerals acquired a 3% interest in Dongguan Cement from Dongguan Metals & Minerals for approximately HK\$0.9 million. The consideration was determined by reference to the net asset value of Dongguan Cement and the share transfer was approved by the Guangdong MOFCOM on February 4, 2002. As a result of these acquisitions, Dongguan Cement was owned as to 70% by CR Metals & Minerals, 10% by Sumitomo Corporation, 2.5% by Sumitomo Corporation (Hong Kong) Limited, 12.5% by UBE Industries, Ltd., and 5% by Dongguan Metals & Minerals. Pursuant to a conditional agreement dated March 26, 2003 between our Company and China Resources Holdings, CR Metals & Minerals transferred its 70% interest in Dongguan Cement to Clear Bright for approximately HK\$85.2 million. The consideration was determined by reference to the net asset value of Dongguan Cement and was settled through current account. As a result, Dongguan Cement was owned as to 70% by Clear Bright, 10% by Sumitomo Corporation, 2.5% by Sumitomo Corporation (Hong Kong) Limited, 12.5% by UBE Industries, Ltd. and 5% by Dongguan Metals & Minerals. In 2003, our Company acquired the entire equity interest in Clear Bright. As a result, Dongguan Cement became a subsidiary of our Company.

HISTORY AND REORGANIZATION

Dongguan Concrete

On June 24, 2002, Dongguan Concrete, a wholly-owned subsidiary of China Resources Holdings through Minmetals Holdings, was established. Construction of Dongguan Concrete’s batching plant commenced in June 2002 and was completed in January 2003. In preparation of our listing in 2003, Full Sincere Limited entered into a share transfer agreement with Minmetals Holdings to acquire its 100% equity interest in Dongguan Concrete for approximately HK\$12 million. The consideration was determined by reference to the net asset value of Dongguan Concrete and was settled through current account. The share transfer was approved by the Dongguan MOFCOM on April 23, 2003 and was completed on May 20, 2003. In 2003, our Company acquired a 100% indirect equity interest in Dongguan Concrete through the acquisition of the entire equity interest in Full Sincere Limited, the then holding company of Dongguan Concrete, from China Resources Holdings.

Shenzhen Concrete

The history of Shenzhen Concrete dates back to January 1982 when CRCEG Shenzhen Enterprises (subsequently renamed 中鐵建工集團深圳實業有限公司 on December 8, 2004), a state-owned enterprise with a registered capital of RMB25.0 million, was formed. The construction of Shenzhen Concrete’s batching plant was approved by Shenzhen City Construction Bank (深圳市建設局) on September 30, 1997 and was completed in April 1999.

On March 4, 2002, CRCEG Shenzhen Enterprises and Shenzhen Foreign Trade Centre (subsequently renamed as China Resources (Shenzhen) Co., Ltd. when it became a wholly-owned subsidiary of China Resources Holdings in May 2002) entered into a capital contribution agreement for the establishment of Shenzhen Concrete. Pursuant to the agreement, Shenzhen Foreign Trade Centre, as trustee of Minmetals Holdings, agreed to invest RMB17.5 million in cash for a 70% equity interest in Shenzhen Concrete and CRCEG Shenzhen Enterprises agreed to transfer its assets of RMB7.5 million to Shenzhen Concrete in exchange for a 30% equity interest in Shenzhen Concrete.

On March 24, 2003, Goodsales Investments Limited, a wholly-owned subsidiary of China Resources Holdings, acquired from Minmetals Holdings its 70% equity interest in Shenzhen Concrete. Such equity interest was subsequently acquired by our Company through the acquisition of the entire equity interest in Goodsales Investments Limited from China Resources Holdings in the same year.

Redland Concrete

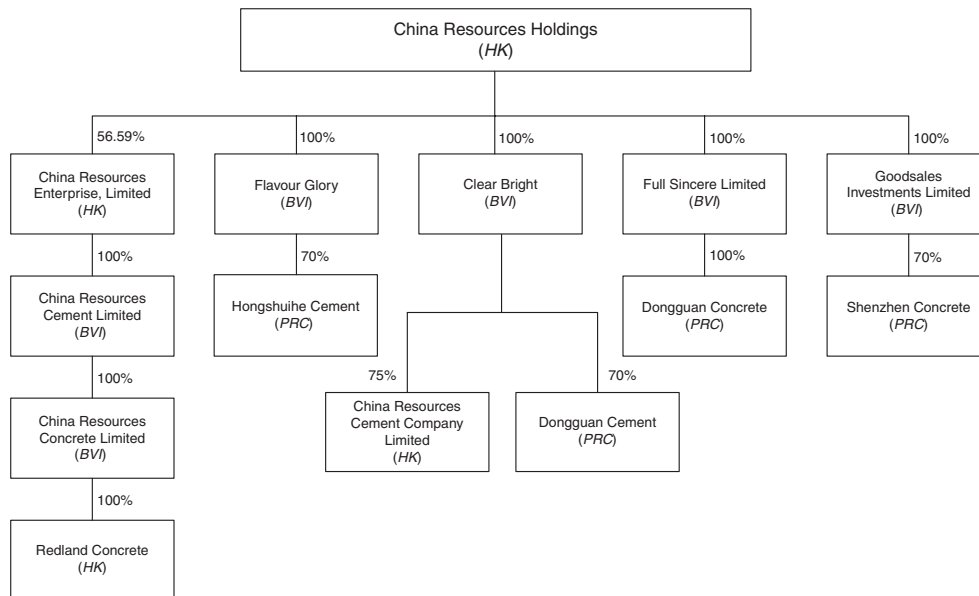
Redland Concrete was established by China Resources Holdings together with an Independent Third Party and other members of the management team.

In August 1997, China Resources Enterprise, Limited acquired an 80% shareholding interest in Redland Concrete from China Resources Holdings for HK\$776 million. In August 1999, Redland Concrete became a wholly-owned subsidiary of China Resources Enterprise, Limited when China Resources Enterprise, Limited acquired the remaining 20% shareholding interest from China Resources Holdings for HK\$168 million.

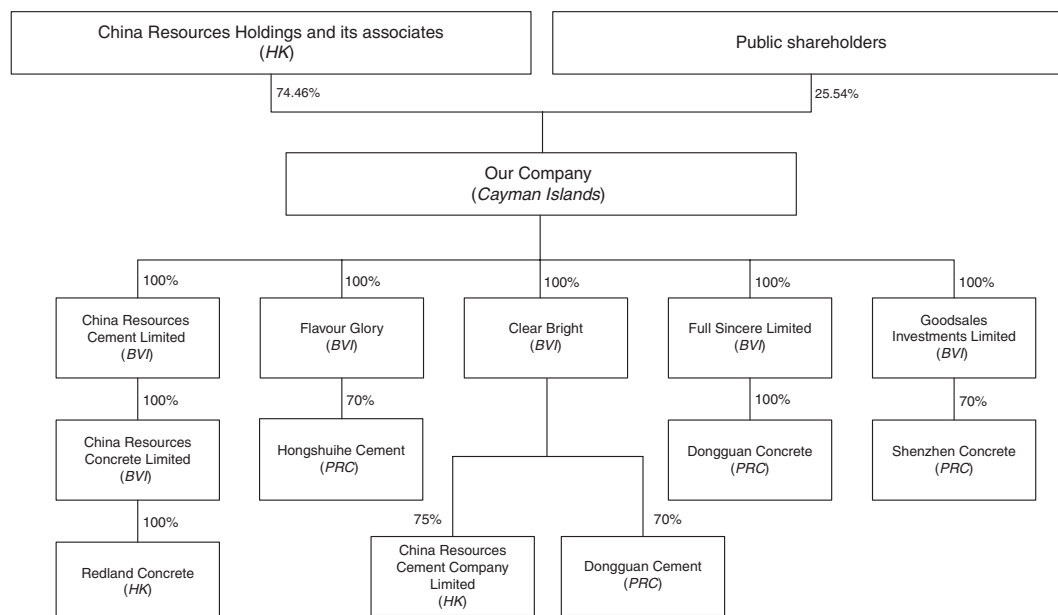
Pursuant to the group reorganization in preparation for our listing in 2003, China Resources Enterprise, Limited transferred the entire issued share capital of the holding company of Redland Concrete to our Company. Upon completion of the transfer, Redland Concrete became a wholly-owned subsidiary of our Company.

HISTORY AND REORGANIZATION

The following chart shows our corporate structure immediately before the corporate reorganization in preparation for the listing of our Shares on the Hong Kong Stock Exchange on July 29, 2003:



The following chart shows our corporate structure immediately after the listing of our Shares on the Hong Kong Stock Exchange on July 29, 2003:



From 2003 Listing to Privatization

After our listing in 2003, we continued to develop our cement and concrete operations to increase our sales coverage. We also carried out internal restructuring to prepare for the growth of our Group.

HISTORY AND REORGANIZATION

In the cement sector, our operations have developed as follows:

- as part of our internal restructuring, on November 3, 2003, Clear Bright, Sumitomo Corporation, Sumitomo Corporation (Hong Kong) Limited, UBE Industries, Ltd. and Dongguan Metals & Minerals transferred their 70%, 10%, 2.5%, 12.5% and 5% equity interest in Dongguan Cement to China Resources Cement Company Limited for consideration of HK\$104.3 million, HK\$14.9 million, HK\$3.7 million, HK\$18.6 million and HK\$4.8 million, respectively. The consideration was equivalent to the amount contributed by the transferors to the capital of Dongguan Cement and was fully settled by the issue of shares in China Resources Cement Company Limited. The share transfer was approved by Guangdong MOFCOM on September 10, 2003. Upon completion of the share transfer, the entire equity interest of Dongguan Cement was held by China Resources Cement Company Limited;
- we established Guigang Cement on January 12, 2004 to develop our cement operations in Guigang, Guangxi. It commenced production in January 2006 and currently operates two clinker production lines and four cement production lines with a total annual production capacity of 3.1 million tons of clinker and 4.8 million tons of cement;
- we established Nanning Cement on November 9, 2004 to develop our cement operations in Nanning, Guangxi. It commenced production in January 2008 and currently operates two clinker production lines and four cement production lines with a total annual production capacity of 3.1 million tons of clinker and 4.8 million tons of cement;
- on December 16, 2004, Hongshuihe Cement and Profit Pool Holdings Limited entered into a supplemental agreement pursuant to which Hongshuihe Cement and Profit Pool Holdings Limited contributed an additional HK\$12.5 million and HK\$3.8 million to the capital of Zhanjiang Cement, respectively, and their equity interest was changed to 70% and 30%, respectively. The additional capital was used for the construction of a new cement production line;
- we entered into a share swap agreement with Sumitomo Corporation, Sumitomo Corporation (Hong Kong) Limited and UBE Industries, Limited on January 12, 2005 for the acquisition of 25% equity interest in China Resources Dongguan Cement Manufactory Holdings Limited (formerly named China Resources Cement Company Limited) which, as a result became a wholly-owned subsidiary of our Company;
- we acquired a 73.5% equity interest in Pingnan Cement through the acquisition of the entire interest in Tricot Limited from China Resources Holdings for HK\$151.7 million on January 13, 2005. On July 5, 2005, we injected cash of RMB419.2 million into Pingnan Cement, increasing our interest from 73.5% to 90.9%. On August 17, 2005, our subsidiary, CRC Investments, entered into a share transfer agreement to acquire the remaining 9.1% equity interest held by Guangxi Yufeng Group Cement Company Limited in Pingnan Cement for RMB64.6 million. The consideration was determined by reference to the net asset value of Pingnan Cement and was fully settled by cash. The share transfer was approved by the Guangxi government and was completed on September 30, 2005. As a result, Pingnan Cement became a wholly-owned subsidiary of our Company. Pingnan Cement commenced operation in October 2004 and currently operates five clinker production lines and nine cement production lines with a total annual production capacity of 7.8 million tons of clinker and 8.4 million tons of cement; and
- we established Fangchenggang Cement on December 16, 2005 to develop our cement operations in Fangchenggang, Guangxi. It currently operates two cement production lines with a total annual production capacity of 0.3 million tons of cement.

HISTORY AND REORGANIZATION

In the concrete sector, our operations have developed as follows:

- on August 31, 2003, our Company transferred a 100% equity interest in Goodsales Investments Limited, the holding company of Shenzhen Concrete, to China Resources Concrete Limited as part of our internal restructuring;
- to expand our concrete business in Shenzhen, on December 20, 2003, we entered into share transfer agreements for the acquisition of the entire equity interest in Shenzhen China Resources Shengcheng Concrete Limited and Shenzhen China Resources Wenwei Concrete Limited for approximately RMB11.0 million and RMB20 million, respectively. The consideration was determined by reference to the net asset value of Shenzhen China Resources Shengcheng Concrete Limited and Shenzhen China Resources Wenwei Concrete Limited, respectively, and was settled fully by cash. The share transfers in relation to Shenzhen China Resources Shengcheng Concrete Limited and Shenzhen China Resources Wenwei Concrete Limited were approved by Shenzhen government on March 4, 2004 and February 16, 2004, respectively, and were completed on March 25, 2004 and March 10, 2004, respectively;
- we established China Resources Concrete (Nanning) Limited on January 19, 2004 to develop our concrete business in Xingning District, Nanning, Guangxi. It commenced production in September 2004 and has a total annual production capacity of 600,000 cubic meters;
- on July 19, 2004, Goodsales Investments Limited entered into an acquisition agreement with CRCEG Shenzhen Enterprises for the acquisition of a 30% equity interest in Shenzhen Concrete for RMB15.0 million. The consideration was determined by parties' negotiation and was fully settled by cash. The acquisition was approved by the Shenzhen government on January 11, 2006 and was completed on February 17, 2006. As a result, Shenzhen Concrete became an indirect wholly-owned subsidiary of our Company. As Shenzhen Concrete was in direct competition with Shenzhen China Resources Shengcheng Concrete Limited and Shenzhen China Resources Wenwei Concrete Limited, the acquisition of the remaining 30% interest resolved the potential difference in interests between us and the minority interests;
- to expand our concrete operations to Foshan, Guangdong, we entered into share transfer agreements with Foshan Lecong Town Hongjia Building Material Company Limited (佛山樂從鎮宏佳建材有限公司) and Chuanghui International Company Limited (創輝國際有限公司) on September 23, 2004 to acquire the entire equity interest in Foshan China Resources Concrete Shunan Limited for a total consideration of RMB19.8 million. The consideration was determined by parties' negotiation and was fully settled by cash. The transfer was approved by Foshan Shunde District MOFCOM on December 1, 2004 and was completed on December 14, 2004. Our concrete batching plant in Shunde, Foshan has a total annual production capacity of 800,000 cubic meters;
- we established China Resources Concrete (Nanning Xixiangtang) Limited on July 28, 2005 to develop our concrete business in Xixiangtang, Nanning, Guangxi. It commenced production in April 2006 and has a total annual production capacity of 500,000 cubic meters;
- we established China Resources Concrete (Foshan) Company Limited on August 2, 2005 to develop our concrete business in Foshan, Guangdong. It commenced production in February 2006 and has a total annual production capacity of 600,000 cubic meters;
- we established China Resources Concrete (Beihai) Limited on November 30, 2005 to develop our concrete business in Beihai, Guangxi. It commenced production in June 2006 and has a total annual production capacity of 500,000 cubic meters;

HISTORY AND REORGANIZATION

- we established China Resources Concrete (Jiangmen) Limited on June 30, 2006 to develop our concrete business in Daze Town, Jiangmen, Guangdong. It commenced production in January 2007 and has a total annual production capacity of 600,000 cubic meters. A second concrete batching plant commenced production in October 2008 with a total annual production capacity of 600,000 cubic meters.

Privatization

From 2004 to 2005, the conditions in the building materials sectors in China had changed markedly due principally to measures taken by the PRC Government to curb excessive FAI and the substantial increase in production and distribution costs due principally to sharply increased coal and oil prices. This resulted in pressure on the prices of our products in 2006. Due to the unfavorable operating environment at that time, the average unit selling price of our cement decreased from HK\$237.8 per ton in 2005 to HK\$197.7 per ton in 2006 and the average unit selling price of our concrete decreased from HK\$273.1 per cubic meter in 2005 to HK\$268.4 cubic meters in 2006.

In addition, our Shares were trading at a significant discount to their underlying adjusted net asset value per share. The discounts ranged from 25.9% to 58.0% from March 2004 to March 2006 and the trading volume remained low during the same period. The price performance of our shares had been recording a general downward trend from April 29, 2004 to March 28, 2006, during which the price declined from HK\$2.30 to HK\$1.81.

Our then Directors were concerned about our continuing business development. In 2005, our Company intended to expand our annual production capacity for cement and concrete to 15 million tons and 10 million cubic meters by 2008, respectively. At that time, our management estimated we would require new capital of approximately HK\$2 billion to finance this plan. In circumstances where it was not possible to raise significant funds from the capital markets at the time (except for the issuance of an aggregate principal amount of HK\$800 million of convertible bonds which were substantially purchased by China Resources Holdings in 2005) and in view of keen competition and cost pressures in the construction materials sector, we believed that our continued expansion during difficult trading conditions was best carried out as a private company.

To bring our gearing ratio to a reasonable level which would allow us to return to the debt capital markets and raise additional funding for the expansion of our businesses, China Resources Holdings had to convert the convertible bonds to reduce our level of indebtedness. Such conversion was not feasible because the conversion would raise China Resources Holdings' shareholding in our Company from 70.7% to approximately 85.2%, which would not have been permissible under the Listing Rules by reason of the requirement to maintain a minimum level of public float. As a result, China Resources Holdings, through its wholly-owned subsidiary, Smooth Concept, requested the then Board to put forward to the then Shareholders a proposal regarding the privatization and the withdrawal of our listing on March 29, 2006.

The privatization in 2006 involved a scheme of arrangement, a convertible bond offer and an option lapsing payment as described below.

China Resources Holdings through Smooth Concept requested the then Directors to put forward (i) a proposal to the then Shareholders which, if implemented, would result in us becoming a wholly-owned subsidiary of Smooth Concept; (ii) a proposed offer to acquire all outstanding convertible bonds to the holders of the convertible bonds; and (iii) a proposed option lapsing payment to the holders of options for the difference between the exercise price of the options and the cash alternative under the scheme of arrangement. The acquisition of the convertible bonds and the option lapsing payment were made conditional upon the scheme of arrangement becoming effective.

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Scheme of Arrangement

Under the scheme of arrangement, the then Shareholders could elect one of three options: (i) cash alternative; (ii) share alternative; and (iii) combination alternative:

Pursuant to the cash alternative, the then Shareholders (other than CRH Group) could receive from Smooth Concept, in consideration for the cancellation of their Shares, HK\$2.45 in cash for every Share held by the then Shareholders. This offer price represented:

- a premium of approximately 35.4% over the closing price of the HK\$1.81 per share quoted on the Hong Kong Stock Exchange on March 26, 2006, being the last day on which the Shares were traded before the announcement that was issued jointly by Smooth Concept and our Company in relation to the proposal on March 31, 2006;
- a premium of 65.5% over the average closing price of approximately HK\$1.48 per share based on the daily closing prices as quoted on the Hong Kong Stock Exchange for the 30 trading days up to and including March 26, 2006;
- a premium of 57% over the weighted average trade price since January 1, 2005 up to and including March 26, 2006; and
- a discount of approximately 2.8% to the adjusted consolidated net asset value per share and a premium of approximately 3.4% over our adjusted consolidated net tangible asset value.

Pursuant to the share alternative, the then Shareholders could receive one share in Smooth Concept for every Share they held.

Pursuant to the combination alternative, the then Shareholders may elect to receive a combination of the cash alternative and share alternative.

The scheme of arrangement also entailed cancelling all of the Shares when the proposal became effective and the same number of Shares would then be reissued to Smooth Concept.

In consideration for the cancellation of the Shares held by China Resources Holdings, China Resources Holdings was issued the same number of new shares in Smooth Concept, credited as fully paid.

In order to finance the scheme of arrangement, China Resources Holdings subscribed for such number of new shares in Smooth Concept at HK\$2.45 per share to enable the other Shareholders who elected the share alternative to receive an equity interest on an undiluted basis in Smooth Concept in the same proportion as their equity interest in our Company before the implementation of the scheme of arrangement.

Furthermore, China Resources Holdings also subscribed for additional shares in Smooth Concept to finance the purchase of convertible bonds under the convertible bond offer and to finance the option lapsing payment.

The listing of the Shares was withdrawn in July 2006 immediately upon the scheme of arrangement becoming effective.

The shares in Smooth Concept offered under the share alternative and the combination alternative ranked pari passu with the then issued shares in Smooth Concept carrying equal dividends, capital and voting rights. Shareholders of Smooth Concept enjoyed the benefits of limited liability and their rights and obligations in relation to Smooth Concept were governed by the provision of BVI Business Companies Act of the BVI.

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The Convertible Bond Offer

Smooth Concept offered to acquire all the convertible bonds held by the independent holders of the convertible bonds on the basis of: HK\$4,900 in cash for each HK\$4,000 principal amount of the convertible bonds and so in proportion for any lesser or greater principal amount of the convertible bonds held. According to our independent financial advisor, Somerley, the consideration of the convertible bond offer was determined based on the consideration of HK\$2.45 per share payable under the cash alternative.

The Option Lapsing Payment

As at May 16, 2006, there were 34,440,000 outstanding options with exercise prices being HK\$1.66 and HK\$2.325 per Option. Pursuant to the proposal, the holders of the options had the right to convert all outstanding options and participate in the scheme of arrangement. Smooth Concept also offered to pay the option lapsing payment to all option holders who did not exercise their conversion right.

In connection with the proposal, we formed an independent board committee comprising all of our independent non-executive directors at the time, for the purpose of considering the offer terms of the proposal and to advise the then independent Shareholders and the independent holders of the convertible bonds and the option holders in respect of the proposal, the convertible bond offer, the option lapsing payment and the option holders.

Having considered the various factors and completed the relevant analyses, Somerley was of the view that the performance of our Group since its listing in 2003 has been hindered by (i) the measures of the PRC Government to control fixed asset investment, affecting demand for building materials; (ii) pressures on the selling prices of cement and concrete due to market competition; and (iii) pressures on production and distribution costs due principally to increases in coal and oil prices. Furthermore, due to the thinly traded volume of the our shares during the 18 months from September 2004 to February 2006, and the substantial and persistent discount of the price of the shares to the net asset value per share of our Group. The unfavorable market sentiments toward the cement industry were reflected in prevailing share prices of the cement companies listed on the Hong Kong Stock Exchange at that time. Although Somerley pointed out that the administrative measures were perceived to be beneficial to large cement manufacturers for the long run, Somerley was of the view that it would be difficult for our Group to raise capital in the then capital market without significant dilution to net asset value per share. Accordingly, it would be more appropriate for our Group to raise capital as a private company. Somerley concluded the terms of the proposal were fair and reasonable and it recommended the independent board committee to advise the independent Shareholders, the independent holders of the convertible bonds, and option holders to accept the terms of the proposal.

As jointly announced by China Resources Holdings, Smooth Concept, and us on June 15, 2006, a court meeting was held to approve the scheme of arrangement. A total of 21 persons representing 71,658,224 Shares (representing 64.2% of all our existing issued capital at that time (other than China Resources Holdings and parties acting in concert with it) were present and voted either in person or by proxy, of which:

- 18 Shareholders representing 71,539,461 votes (representing approximately 99.83% of all the Shares voted) voted in favor of the scheme of arrangement; and
- 3 Shareholders representing 118,763 votes (representing approximately 0.11% of all the Shares voted) voted against the scheme of arrangement.

HKSCC Nominees Limited, who holds a total of 45,342,823 Shares on behalf of beneficial owners of such Shares who voted for and against the scheme of arrangement, was counted as one Shareholder.

We held a separate extraordinary general meeting ("EGM") to vote on the special resolution approving the implementation of the scheme of arrangement. A total of 381,863,461 Shares (representing our entire issued

HISTORY AND REORGANIZATION

share capital, entitled the holders to attend and vote for or against the special resolution at the EGM) were either in person or by proxy, of which 345,370,607 Shares (representing approximately 99.97% of the Shares voted) were voted in favor of the special resolution and 118,673 Shares (representing approximately 0.03% of Shares voted) were voted against the special resolution.

Accordingly, the scheme of arrangement was approved by a majority of not less than three-fourths in value of the Shares voted in person or by proxy at the court and as required under the Takeovers Code. The scheme of arrangement was sanctioned by the High Court of Hong Kong. As a result, the scheme of arrangement was approved by the requisite majority of the then Shareholders at the court meeting and at the EGM, in accordance with the applicable statutory, regulatory and listing rule requirements. Upon the scheme of arrangement becoming effective, all the Shares in issue were cancelled and the same number of Shares was immediately reissued to Smooth Concept. In addition, the then Shareholders made their own independent decisions on the exercise of their rights in relation to the scheme of arrangement. Out of all of the then Shareholders, a total of five Shareholders⁽¹⁾ (excluding China Resources Holdings and its associates) representing 117,537 shares opted for shares in Smooth Concept.

The listing of our Shares on the Hong Kong Stock Exchange was withdrawn on July 26, 2006.

After our Privatization

In the cement sector, our operations have developed as follows:

- on January 20, 2007, CRC Investments entered into a share transfer agreement to acquire from Profit Pool Holdings Limited its 30% equity interest in Zhanjiang Hongshuihe Cement for approximately HK\$7.7 million. The consideration was determined by reference to the net asset value of Zhanjiang Hongshuihe Cement and was fully settled by cash. The transfer was approved by the Guangdong government in May 21, 2007 and was completed on May 28, 2007. On May 19, 2008, CRC Investments acquired from Hongshuihe Cement its 70% equity interest in Zhanjiang Hongshuihe Cement for approximately RMB20.3 million. The consideration was determined with reference to the net asset value of Zhanjiang Hongshuihe Cement and was settled through current account. The acquisition was approved by the Guangdong government on April 9, 2008 and was completed on May 19, 2008. As a result, Zhanjiang Hongshuihe Cement became a wholly-owned subsidiary of CRC Investments;
- we established China Resources Cement (Fengkai) Limited on August 14, 2007 to develop our cement business in Fengkai, Guangdong. It is planning to construct two clinker production lines and two cement production lines with a total annual production capacity of 3.1 million tons of clinker and 3.7 million tons of cement, which are expected to commence production by the first quarter of 2010;
- we established Shangsi Cement on January 15, 2008 to develop our cement business in Shangsi, Guangxi. It is planning to construct one clinker production line and two cement production lines with a total annual production capacity of 1.55 million tons of clinker and 1.9 million tons of cement, which are expected to commence production by the end of 2009;
- on April 29, 2008, CRC Investments injected cash of approximately RMB229.5 million into Pingnan Cement, increasing its interest from 9.1% to 33%. On May 19, 2008, Guangxi Zhuang Autonomous Region Commercial Bureau issued an approval relating to the injection of capital of RMB214.4 million by CRC Investments into Pingnan Cement, increasing its interest from 33% to 46%. The cash injected into Pingnan Cement was used for the construction of new clinker production lines;

⁽¹⁾ HKSCC Nominees Limited and HSBC Nominees (Hong Kong) Limited were counted as two Shareholders.

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- we established Fuchuan Cement on May 9, 2008 to develop our cement business in Fuchuan, Guangxi. It is planning to construct one clinker production line with an annual production capacity of approximately 1.55 million tons and two cement production lines with a total annual production capacity of approximately 1.9 million tons which are expected to commence production by the first quarter of 2010;
- we established China Resources Cement (Guiping) Limited on May 28, 2008 for future expansion of our cement business in Guiping, Guangxi;
- we established China Resources Cement (Wuxuan) Limited on June 26, 2008 for future expansion of our cement business in Wuxuan, Guangxi;
- we established China Resources Cement (Hepu) Limited on July 3, 2008 for future expansion of our cement business in Hepu, Guangxi;
- we established China Resources Cement (Zhangzhou) Limited on July 7, 2008 for future expansion of our cement business in Zhangzhou, Fujian;
- we established China Resources Cement (Tianyang) Limited on July 18, 2008 for future expansion of our cement business in Tianyang, Guangxi; and
- we acquired the entire issued share capital in Tino Investment Limited from Winlink Investment Limited, an Independent Third Party, on April 2, 2008 for RMB96 million, which is determined by reference to an independent valuation. Tino Investment Limited established China Cement Company (Shantou) Limited on March 31, 1994 which in turn established Shantou Cement Co. Ltd for the purpose of constructing one cement grinding plant with a total annual production capacity of 1.8 million tons in Shantou, Guangdong, which is expected to commence production by third quarter of 2009.

In the concrete sector, our operations have developed as follows:

- we established China Resources Concrete (Guangxi) Limited on August 16, 2006 to develop our concrete business in Nanning Economic and Technology Development Zone in Nanning, Guangxi. It commenced production in July 2007 and has a total annual production capacity of 900,000 cubic meters;
- we established China Resources Concrete (Fangchenggang) Limited on August 29, 2006 to develop our concrete business in Fangchenggang, Guangxi. It commenced production in September 2008 and has a total annual production capacity of 500,000 cubic meters;
- we established China Resources Concrete (Dongguan Fengcheng) Company Limited on September 29, 2006 to develop our concrete business in Chashan Town, Dongguan, Guangdong. It commenced production in December 2006 and has a total annual production capacity of 900,000 cubic meters;
- on December 18, 2006, Full Sincere Limited transferred a 100% equity interest in Dongguan Concrete to China Resources Concrete Limited for HK\$20 million as part of our internal restructuring. The consideration was determined by reference to the amount contributed by Full Sincere Limited to the registered capital of Dongguan Concrete and was settled through current account. The share transfer was approved by the Guangdong government on November 29, 2006;
- we established China Resources Concrete (Qinzhou) Limited on April 24, 2007 to develop our concrete business in Qinbei District, Qinzhou, Guangxi. It commenced production in December 2007 and has a total annual production capacity of 600,000 cubic meters;

HISTORY AND REORGANIZATION

- we established China Resources Concrete (Fuzhou Development Zone) Limited on July 27, 2007 to develop our concrete business in Mawei District, Fuzhou, Fujian. It commenced production in December 2007 and has a total annual production capacity of 600,000 cubic meters;
- we established China Resources Concrete (Fuzhou) Limited on September 27, 2007 to develop our concrete business in Zhuqi, Fujian. It is planning to construct a concrete batching plant with a total annual production capacity of 600,000 cubic meters, which is expected to commence production by the last quarter of 2009;
- to expand our concrete business to Heyuan, Guangdong, we entered into a share transfer agreement with Xiao Qinghui, an Independent Third Party, on October 28, 2007 to acquire 100% equity interest in a company which was renamed as Heyuan China Resources Pengyuan Concrete Limited for RMB27.0 million. The consideration was determined by reference to the net asset value of Heyuan China Resources Pengyuan Concrete Limited. Heyuan China Resources Pengyuan Concrete Limited has a concrete batching plant with a total annual production capacity of 600,000 cubic meters in Heyuan, Guangdong;
- we established China Resources Concrete (Jiangmen Tangxia) Limited on December 3, 2007 to develop our concrete business in Tangxia Town, Jiangmen, Guangdong. It commenced production in January 2009 and has a total annual production capacity of 600,000 cubic meters;
- as part of our internal restructuring, on December 28, 2007, our Company transferred a 100% equity interest in Clear Bright to Smooth Concept for HK\$58.6 million, based on the consolidated net asset value of Clear Bright as at November 30, 2007 and such consideration was settled through current accounts of our Company on the date of transfer;
- as part of our internal restructuring, on December 28, 2007, our Company transferred 100% equity interest in Flavour Glory to Smooth Concept for HK\$229.2 million, based on the consolidated net asset value of Flavour Glory as at November 30, 2007 and such consideration was settled through current accounts of our Company on the date of transfer;
- as part of our internal restructuring, on December 28, 2007, our Company transferred 100% indirect equity interest in Redland Precast to Smooth Concept for HK\$1.00, based on the consolidated net asset value of Redland Precast as at November 30, 2007 and such consideration was settled through current accounts of our Company on the date of transfer;
- we established China Resources Concrete (Zhaoqing) Limited on February 3, 2008 to develop our concrete business in Dinghu District, Zhaoqing, Guangdong. It is planning to construct a concrete batching plant with a total annual production capacity of 600,000 cubic meters, which is expected to commence production by the second quarter of 2010;
- we disposed of the entire equity interest in Redland Concrete to China Resources Logic Limited (renamed China Resources Gas Group Limited on November 12, 2008), a subsidiary of China Resources Holdings, on March 5, 2008 for HK\$217.8 million, based on the consolidated net asset value of Redland Concrete as at October 31, 2007 and was settled on March 5, 2008 in cash;
- we established China Resources Concrete (Fujian) Limited on June 10, 2008 for future expansion of our concrete business in Putian, Fujian. It is planning to construct a concrete batching plant with a total annual production capacity of 600,000 cubic meters, which is expected to commence production by the fourth quarter of 2009;

HISTORY AND REORGANIZATION

- we established China Resources Concrete (Qingxiu) Limited on June 18, 2008 to develop our concrete business in Nanning, Guangxi. It commenced production in October 2008 and has a total annual production capacity of 600,000 cubic meters;
- we established China Resources Concrete (Guigang) Limited on July 2, 2008 to develop our concrete business in Guigang, Guangxi. It is planning to construct a concrete batching plant with a total annual production capacity of 600,000 cubic meters, which has commenced in the September of 2009;
- on December 18, 2008, we successfully won the bid at the public auction held by Hainan Hengji Fengye Auction Company Limited (海南恒基豐業拍賣有限公司) in Haikou for the acquisition of an approximate 29.3% equity interest in Hainan Cement (國投海南水泥有限責任公司) held by China Construction Bank, Hainan Branch (中國建設銀行股份有限公司海南省分行) for RMB269 million, which is the auction price of our successful bid in a competitive open auction. The Company calculated the bidding price on the basis of its findings in the due diligence and believes that the consideration represents a fair value of the 29.3% equity interest in Hainan Cement. The acquisition of 29.3% of Hainan Cement remains subject to government approval. Prior to the acquisition, Hainan Cement was held as to 34.14% by Guo Tou, 31.08% by 中國長城資產管理公司 (China Great Wall Asset Management), 29.3% by 中國建設銀行股份有限公司海南分行 (China Construction Bank, Hainan Branch), 1.95% by 中國東方資產管理公司 (China Orient Asset Management), 1.88% by 海南華盈投資控股有限公司 (Hainan Huaying Investment Holding Company) and 1.65% by 海南國際信託投資公司 (Hainan International Trust Company). Upon completion of the acquisition, Hainan Cement is held as to 34.14% by Guo Tou, 31.08% by 中國長城資產管理公司 (China Great Wall Asset Management), 29.3% by CRC Investments, 1.95% by 中國東方資產管理公司 (China Orient Asset Management), 1.88% by 海南華盈投資控股有限公司 (Hainan Huaying Investment Holding Company) and 1.65% by 海南國際信託投資公司 (Hainan International Trust Company). Other than CRC Investments, all the shareholders of Hainan Cement are Independent Third Parties. Pursuant to an agreement for the transfer of equity interest and debtor's right dated June 30, 2009 between Guo Tou (as transferee) and CRC Investments (as transferor), Guo Tou agrees to transfer to CRC Investments (a) its 34.14% equity interest in Hainan Cement, and (b) a debtor's right in relation to a debt of RMB246,985,267.67 owed by Hainan Cement to Guo Tou (the *Receivable*). This transfer will be funded by our internal resources and the consideration amounts to an aggregate of RMB571,831,767.67 of which RMB324,846,500 is the consideration for the transfer of the 34.14% equity interest in Hainan Cement. The Receivable will be transferred to CRC Investments at its face value as at April 30, 2009. Completion of the transfers are conditional upon, among others, approval from the SASAC, MOFCOM. We will adopt the purchase method of accounting under HKFRS issued by the HKICPA to account for the acquisition of 29.3% and 34.14% equity interests in Hainan Cement upon their respective dates of completion of the acquisitions, as appropriate. We currently expect that the acquisition will be completed by the end of 2009, however, the actual timing would depend on the fulfillment of the condition precedents set out in the relevant agreement between the parties, including relevant government approvals. We currently do not have any plan to participate in the management of Hainan Cement, which consist of the board of directors (with eight directors, including one chairman and two vice-chairmen) and a supervisory committee (with six supervisors). If acquisition of the additional interest proceeds to completion and as a result our Company becomes a controlling shareholder of Hainan Cement, Cement Investments will appoint members to the board of directors and supervisory committee of Hainan Cement. Our future plans in relation to our investment will depend on future changes and development in the business, management and shareholding structure of Hainan Cement. We understand that Hainan Cement is principally engaged in the production and sale of cement in the Changjiang Li Autonomous County, Hainan Island. Its operations range from the excavation of limestone to the production, sale and

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distribution of cement, clinker and concrete. Given the location of Hainan and its booming tourism sector, cement prices in this region are relatively higher than that in other PRC cities. It has convenient access to limestone resources and currently operates two clinker production lines with a total annual production capacity of 1.4 million tons and a concrete batching plant with annual production capacity of 600,000 cubic meters. It has commenced the construction of a third clinker production line, which will be funded by bank loans and is expected to commence production in the third quarter of 2009 and will increase the total annual production capacity to 3.3 million tons. Taking into account the size and operation of Hainan Cement, we consider the acquisition will be a starting point for us to expand our business to Hainan and increase our overall market share in Southern China; and

- on December 31, 2008, we acquired the entire equity issued share capital of Rich Team, the holding company of Redland Concrete, from China Resources Gas Group Limited for approximately HK\$293.8 million, which was subsequently adjusted to approximately HK\$304.7 million. This adjustment was based on the profit or loss after taxation attributable to CR Gas, which was Rich Team’s shareholder between November 1, 2008 and the date of completion of the acquisition of Rich Team, being December 31, 2008. The consideration was arrived at after negotiations with reference to the unaudited net asset value of Rich Team as at October 31, 2008 and a shareholder’s loan due to CR Gas with a face value of approximately HK\$217.8 million. The original consideration was settled by cash on December 31, 2008 and the adjusted consideration was settled in February 2009.
- On August 31, 2009, Smooth Concept injected an additional HK\$1 billion into the Company in exchange for 4 billion Shares issued by the Company. We plan to use the new capital to finance our expansion plans in Fujian and Hainan provinces.

After our privatization, one of the key trends of China’s cement industry was the shift from traditional vertical kilns to more advanced rotary kilns using NSP technology. Pursuant to an effort to reduce the pressure of the consumption of coal or other energy, the PRC Government has issued a series of regulations intended to phase out vertical kilns. In the “Notice Regarding Replacement of Obsolete Cement Production Capacity” issued on February 18, 2007, the NDRC noted that in all areas, by the end of 2008, all vertical kilns that use semi-dry and wet processes and other obsolete technologies should be replaced, and that the production quota of vertical kilns should be further reduced. Please see the section headed “Industry Overview — Key Industry Trends in China” in this document for further details. These measures were generally perceived to be beneficial to large cement manufacturers such as our Company with higher standard plants in the long run as the implementation of which could result in releasing market shares that were secured by smaller cement manufacturers. In line with these government policies and the industry trend, we have built new production facilities equipped with NSP technology, installed residual heat recovery generators and stopped using all of our wet process rotary kilns, which are less efficient than dry process rotary kilns, to offset the increase in the purchase price of our coal and electricity.

Furthermore, the PRC Government policies have supported larger and more efficient cement producers and will likely target smaller-cement companies for further consolidation and acquisition. Please see the section headed “Industry Overview — Key Industry Trends in China” in this document for further details. In December 2006, we were named as one of the 60 enterprises supported by the PRC Government pursuant to the *Notice of Publishing the List of Large (Group) for Cement Industry Structure Regulation Emphatically Supported by the State* which was issued by the NDRC, the Ministry of Land and Resources and the PBOC. In addition, since our privatization, the number of our competitors has further reduced due to intensifying industry consolidation trend promoted by the government regulations.

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On September 16, 2008, the PBOC reduced the interest rate on borrowing and lending by 0.27% and reduced the Renminbi reserve rate by 1%. This is the first time in 6 years that the PBOC has reduced the interest rate. According to the PBOC, such actions aimed to solidify the PRC State Council's plan to resolve the current issues in the PRC economy, stabilize the national economy and keep the economic growth of China at a sustainable rate. As a result, we believe the PRC Government's attitude towards curbing FAI has somewhat shifted and the decrease in the interest rate and reserve rate is likely to have a positive effect on the general economy and construction industry in China. The PBOC further reduced the interest rate on borrowing and lending several times since October 2008.

More importantly, our financial performance and the business operating environment improved significantly since our privatization in 2006. Our turnover from continuing operations increased from HK\$2,111.7 million in 2006 to HK\$3,743.2 million in 2007 and increased to HK\$5,781.3 million in 2008. For the six months ended June 30, 2009, our turnover from continuing operations amount to HK\$2,738.7 million. Our turnover from continuing operations grew 77.3% from 2006 to 2007, 54.4% from 2007 to 2008 and 5.2% for the first six months ended June 30, 2009 as compared to June 30, 2008.

Finally, our Directors believe that the continuing growth of the PRC economy will have a positive impact on our financial position and results of the operation. The GDP of China was RMB21,192.4 billion, RMB25,730.6 billion and RMB30,670.0 billion for the years ended 2006, 2007 and 2008, respectively. For the first six months of 2009, China's GDP was RMB13,986.2 billion, an increase of 7.1% over the same period of 2008. For the years ended 2006, 2007 and 2008, the FAI in China was RMB10,999.8 billion, RMB13,732.4 billion and RMB17,229.1 billion, respectively. For the first six months of 2009, China's FAI grew by 33.5%, compared to the same period in 2008. For the years ended 2006, 2007 and 2008, the FAI of Guangdong and Guangxi grew at 16.7%, 18.0% and 16.5% and 27.0%, 32.2% and 27.2%, respectively. For the first six months of 2009, the FAI of Guangdong and Guangxi grew by 15.5% and 57.7% over the same period in 2008. The increase in the size of the cement industry in these regions also shows the industry believes that the growing demand warranted expansion. The cement industry in Guangxi increased cement production volume from 36.6 million tons in 2006 to 43.5 million tons in 2007 and to 51.9 million tons in 2008. The Guangdong cement industry increased cement production volume from 88.5 million tons in 2006 to 97.8 million tons in 2007.

Production volume in Guangdong slightly decreased to 94.8 million tons in 2008 as a result of the increase in imports of cement into Guangdong from Guangxi. For the first six months of 2009, the Guangxi cement industry produced 22.0 million tons of cement. For the first six months of 2009, the Guangdong cement industry produced 44.3 million tons of cement. According to the China Cement Industry 2008 Report, the demand for cement has continued to increase from 2007 to 2008 and China is among the countries that will have a high demand for cement in the next few years. As a result, we believe the strong economic growth in China and the regions where we operate will continue to create a number of opportunities for new construction projects which in turn will create greater demand for our products. For example, the PRC Government has become increasingly focused on developing infrastructure since the time of our privatization. According to the Eleventh Five Year Plan, the PRC Government has explicitly expressed its intention to increase expenditures on major infrastructures and developing projects between 2006 to 2010 to cope with the economic growth. Since a significant portion of our turnover is derived from infrastructure and major projects, the expansion of this sector has benefited, and will likely continue to benefit us due to the increase in the demand of cement and concrete for these projects. While the financial crisis continues to contribute to increased volatility and diminished expectations for the global economy and the financial market going forward, the International Monetary Fund's estimate of China's economic growth in 2009 was 7.5% (as at July 2009), which was much higher than its estimate of the contraction of the global economy by 1.4%. We believe the growth in our business, our financial performance in the past few years, the estimated potential growth of the PRC economy, our use of environmentally production technology and the PRC Government's effort to move the economic growth on to a more socially and environmentally sustainable path in the long run present favorable conditions for us to raise

HISTORY AND REORGANIZATION

equity capital from capital markets to increase our operation scale to meet the increase in demand for our products.

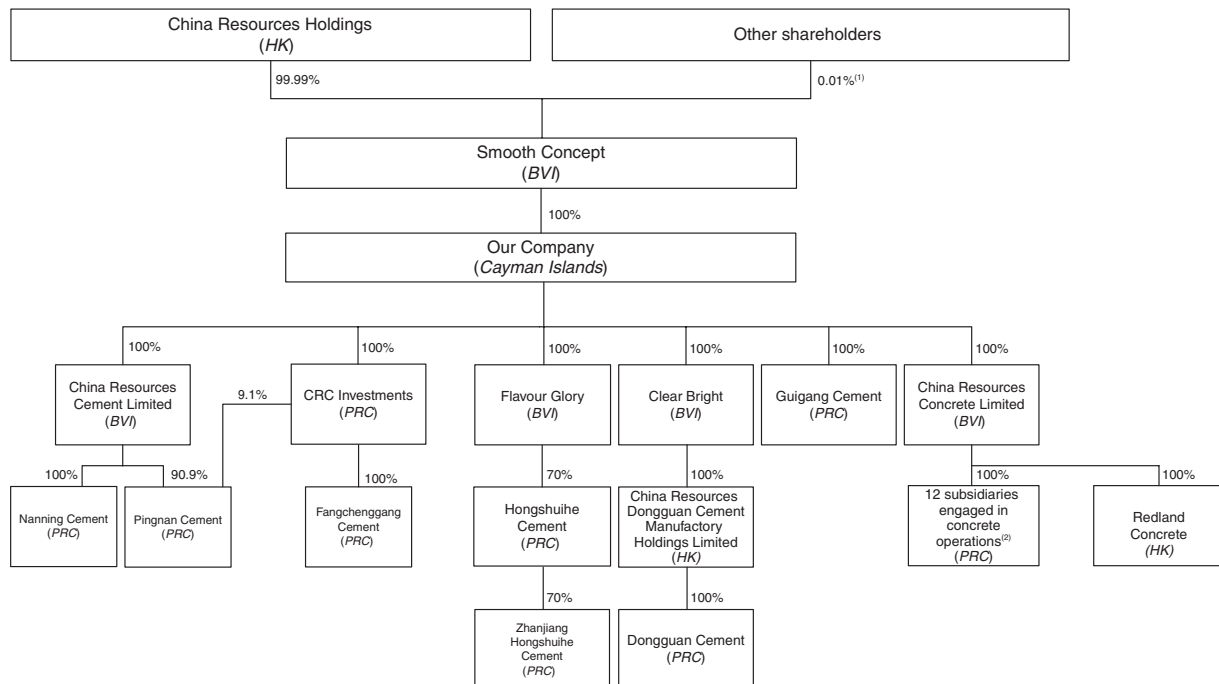
Our Company did not raise any new capital by way of our previous listing by introduction in 2003.

We did not prepare a valuation analysis at the time of our privatization. However, according to our 2005 annual report, our net asset value as at December 31, 2005 was approximately HK\$1,269.6 million or HK\$2.52 per share*. As at December 31, 2008, our net asset value was HK\$4,366.6 million, or HK\$5.59 per share. The increase in our net asset value was primarily due to the conversion of our convertible bonds after the privatization, the increase of equity attributable to the Shareholders of our Company as a result of the increase in the retained earnings and the capitalization of a loan of HK\$866.0 million from Smooth Concept on June 30, 2008.

(* represents audited consolidated net asset value per share on a fully diluted basis.)

HISTORY AND REORGANIZATION

The following chart shows our corporate structure immediately after our privatization;



Notes:

(1) The 0.01% interest in Smooth Concept is held by the following shareholders, all of which are Independent Third Parties:

Full Name	% of shareholding
HKSCC Nominees Limited	0.0077%
HSBC Nominees (Hong Kong) Limited	0.0063%
Horsford Nominees Limited	0.0004%
Pang Ming	0.0003%
Zhang Hong	0.0001%
Lau Chi Wing	0.00001%
Cheung Kwan Tung & Choy Pui Lan	0.0000006%
Ho Kam Tim	0.0000001%

(2) These comprise China Resources Concrete (Beihai) Limited, China Resources Concrete (Fangchenggang) Limited, China Resources Concrete (Foshan) Company Limited, Shenzhen Concrete, Foshan China Resources Shun'an Concrete Limited, Shenzhen China Resources Shengcheng Concrete Limited, Shenzhen China Resources Wenwei Concrete Limited, China Resources Concrete (Dongguan Fengcheng) Limited, China Resources Concrete (Guangxi) Limited, China Resources Concrete (Jiangmen) Limited, China Resources Concrete (Nanning Xixiangtang) Limited, China Resources Dongguan Concrete Company Limited.

HISTORY AND REORGANIZATION

REORGANIZATION

Our Group underwent the Reorganization which included the following:

- Smooth Concept transferred to our Company its 100% equity interest in Top Dragon Resources Limited, Smartec Resources Limited, Rossa Resources Limited, Mingo Resources Limited, Kenetic Resources Limited, Hentex Resources Limited, Ango Resources Limited, Hongda Resources Limited, Capital Rich Resources Limited and Eurolink Resources Limited, which hold certain project companies that we set up for developing our cement operations;
- Smooth Concept transferred to China Resources Cement Limited its 100% equity interest in Flavour Glory and Clear Bright, which are the holding companies of Hongshuihe Cement and China Resources Dongguan Cement Manufactory Holdings Limited, respectively;
- China Resources Cement Limited transferred to China Resources Cement Holdings (Hong Kong) Limited its 100% equity interest in China Resources Cement (Fengkai) Limited, Shangsi Cement and Nanning Cement for HK\$50 million, HK\$1 and US\$55.2 million, respectively. The consideration was determined based on the amount contributed by the transferor to the registered capital of the relevant company and was all settled through current account. The share transfer relating to China Resources Cement (Fengkai) Limited was approved by the Guangdong government on July 2, 2008 and was completed on July 14, 2008. The share transfers relating to Shangsi Cement and Nanning Cement were approved by the Guangxi government on July 22, 2008 and July 15, 2008, respectively, and were completed on August 1, 2008 and December 31, 2008, respectively;
- our Company transferred to China Resources Cement Holdings (Hong Kong) Limited its 100% equity interest in CRC Investments and Guigang Cement for US\$30 million and US\$55.1 million, respectively. The consideration was determined based on the amount contributed by the transferor to the registered capital of CRC Investments and Guigang Cement and was both settled through current accounts. The share transfer in relation to CRC Investments was approved by MOFCOM on November 19, 2008 and by the Shenzhen Government on December 3, 2008. The share transfer in relation to Guigang Cement was approved by the Guangxi government on October 30, 2008 and completed on November 3, 2008;
- Tricot Limited transferred to China Resources Cement Holdings (Hong Kong) Limited its approximate 53.59% interest in Pingnan Cement for RMB579.2 million based on the amount contributed by the transferor to the registered capital of Pingnan Cement and settled through current accounts. The share transfer was approved by the Guangxi government on September 8, 2008;
- China Resources Concrete Limited transferred to China Resources Cement Holdings (Hong Kong) Limited its 100% equity interest in China Resources Concrete (Dongguan Fengcheng) Company Limited, Dongguan Concrete, China Resources Concrete (Jiangmen) Limited, China Resources Concrete (Nanning Xixiangtang) Limited and China Resources Concrete (Guangxi) Limited each for HK\$20 million except for China Resources Concrete (Guangxi) Limited for HK\$34 million. All such consideration was determined based on the amount contributed by the transferor to the registered capital of the relevant company and was all settled through current accounts. The share transfers relating to China Resources Concrete (Dongguan Fengcheng) Company Limited, Dongguan Concrete and China Resources Concrete (Jiangmen) Limited were approved by the Guangdong government on August 27, 2008, September 10, 2008 and July 2, 2008, respectively, and were completed on September 12, 2008, October 16, 2008 and July 10, 2008, respectively. The share transfers relating to China Resources Concrete (Nanning Xixiangtang) Limited and China Resources

HISTORY AND REORGANIZATION

Concrete (Guangxi) Limited were approved by the Nanning government on August 5, 2008 and July 16, 2008, respectively and were completed on August 12, 2008 and July 22, 2008, respectively; and

- our Company transferred to China Resources Cement Holdings (Hong Kong) Limited on July 23, 2008 its 100% equity interest in China Resources Concrete (Nanning) Limited for HK\$20 million based on the amount contributed by the transferor to the registered capital of China Resources Concrete (Nanning) Limited and settled through current accounts. The share transfer was approved by the Nanning government on July 17, 2008 and was completed on July 23, 2008;
- China Resources Cement Holdings (Hong Kong) Limited transferred to CRC Investments its 100% equity interest in Shangsi Cement, Nanning Cement, Guigang Cement, China Resources Concrete (Jiangmen) Limited, China Resources Concrete (Nanning Xixiangtang) Limited, China Resources Concrete (Nanning) Limited and China Resources Concrete (Guangxi) Limited for RMB220.4 million, US\$55.2 million, US\$55.1 million, HK\$20 million, HK\$20 million, HK\$20 million and HK\$34 million, respectively based on the amount contributed by the transferor to the registered capital of the relevant company, and the transfers were all settled through current accounts. The share transfers relating to Shangsi Cement, Nanning Cement and Guigang Cement were approved by the Guangxi government on April 16, 2009, April 3, 2009 and April 1, 2009, respectively. The share transfers relating to China Resources Concrete (Nanning Xixiangtang) Limited, China Resources Concrete (Nanning) Limited and China Resources Concrete (Guangxi) Limited were approved by the Nanning government on March 30, 2009, April 3, 2009 and April 1, 2009, respectively. The share transfer relating to China Resources Concrete (Jiangmen) Limited was approved by the Guangdong government on April 2, 2009. The payment of the equity transfer price has not been made by CRC Investments to China Resources Cement Holdings (Hong Kong) Limited. It is expected that part of the equity transfer price (of approximately US\$150 million) will be set off by CRC Investment's increase in registered capital (from US\$30 million to US\$200 million) which needs to be contributed by China Resources Cement Holdings (Hong Kong) Limited;
- China Cement Company (Shantou) Limited transferred to China Resources Cement Holdings (Hong Kong) Limited its 100% equity interest in Shantou Cement Co. Ltd for RMB210 million, based on the amount contributed by the transferor to the registered capital of Shantou Cement Co. Ltd, and the transfer was settled through current accounts. The share transfer relating to Shantou Cement Co. Ltd was approved by the Shantou government on June 3, 2009;
- China Resources Dongguan Cement Manufactory Holdings Limited transferred to China Resources Cement Holdings (Hong Kong) Limited its 100% equity interest in Dongguan Cement for HK\$199 million, based on the amount contributed by the transferor to the registered capital of Dongguan Cement, and the transfer was settled through current accounts. The share transfer relating to Dongguan Cement was approved by the Guangdong government on June 22, 2009;
- Golden Rocket Investment Limited, a wholly-owned subsidiary of our Company, transferred to China Resources Cement Holdings (Hong Kong) Limited its 100% equity interest in Fuchuan Cement for HK\$7.5 million, based on the amount contributed by the transferor to the registered capital of Fuchuan Cement, and the transfer was settled through current accounts;
- China Resources Concrete Limited transferred to China Resources Cement Holdings (Hong Kong) Limited its 100% equity interest in Heyuan China Resources Pengyuan Concrete Limited, Shenzhen China Resources Wenwei Concrete Limited, Shenzhen China Resources Shengcheng Concrete,

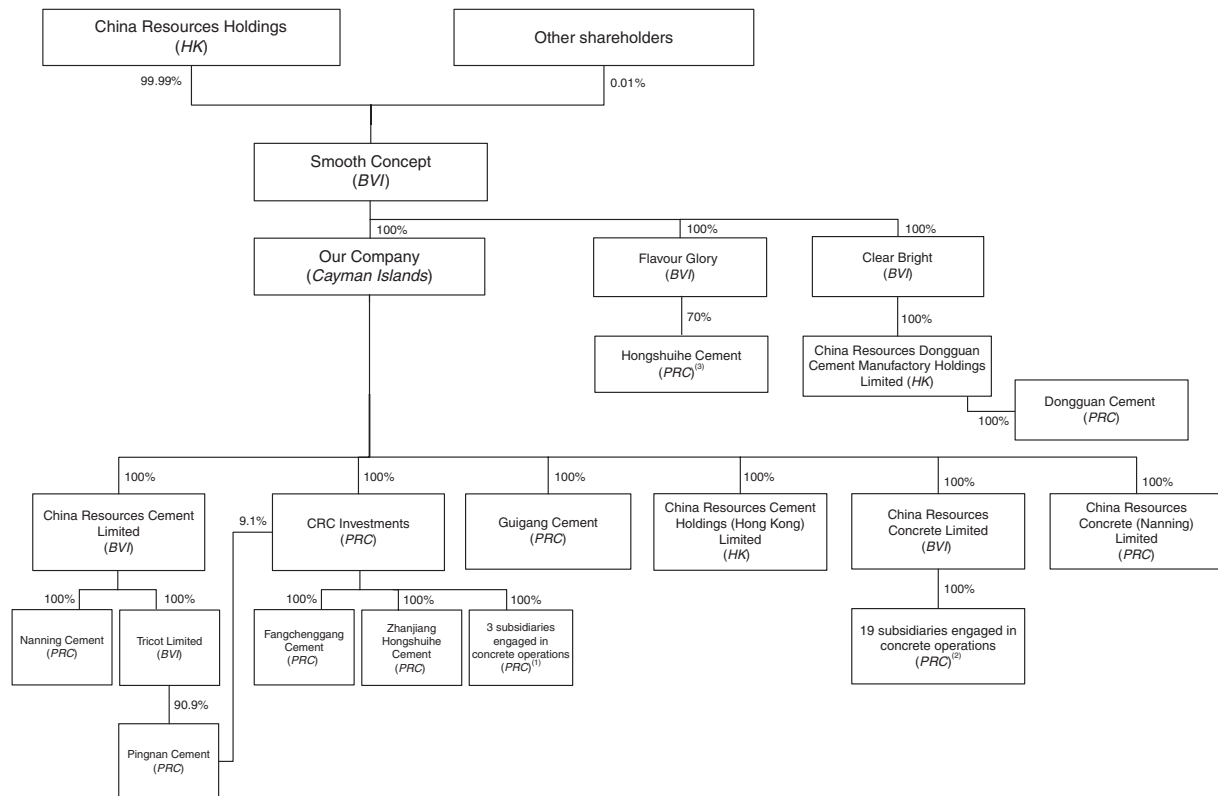
HISTORY AND REORGANIZATION

China Resources (Zhaoqing) Limited, China Resources Concrete (Jiangmen Tangxia) Limited, China Resources Concrete (Foshan) Co., Ltd, Foshan China Resources Shunan Concrete Limited, China Resources Concrete (Zhanjiang) Limited, China Resources Concrete (Liuzhou) Limited, China Resources Concrete (Fangchenggang), China Resources Concrete (Qinzhou) Limited, China Resources (Beihai) Limited, and China Resources (Fuzhou Development Zone) Limited for RMB22 million, RMB20 million, RMB20 million, HK\$20 million, HK\$20 million, HK\$20 million, US\$2.4 million, HK\$20 million, HK\$20 million, HK\$12.5 million, HK\$20 million, HK\$20 million and HK\$20 million, respectively, and will transfer to China Resources Cement Holdings (Hong Kong) Limited its 100% equity interest in China Resources Concrete (Fuzhou) Limited for HK\$21 million. The consideration for these transfers were based on the amount contributed by the transferor to the registered capital of the relevant company, and the transfers were all settled through current accounts. The share transfers relating to Heyuan China Resources Pengyuan Concrete Limited, China Resources (Zhaoqing) Limited, China Resources Concrete (Jiangmen Tangxia) Limited, China Resources Concrete (Foshan) Co., Ltd., Foshan China Resources Shunan Concrete Limited and China Resources Concrete (Zhanjiang) Limited were approved by the Guangdong government on June 2, 2009, June 1, 2009, May 13, 2009, June 4, 2009, June 21, 2009 and June 4, 2009, respectively. The share transfer relating to China Resources (Beihai) Limited was approved by the Guangxi government on May 19, 2009. The share transfer relating to China Resources Concrete (Liuzhou) Limited was approved by the Liuzhou government on May 20, 2009. The share transfer relating to China Resources Concrete (Fangchenggang) Limited was approved by the Fangchenggang government on May 18, 2009. The share transfer relating to China Resources Concrete (Qinzhou) Limited was approved by the Qinzhou government on May 18, 2009. The share transfers relating to China Resources Concrete (Fuzhou) Limited and China Resources (Fuzhou Development Zone) Limited were approved by the Fuzhou government on June 18, 2009 and June 9, 2009, respectively. The share transfers relating to Shenzhen China Resources Wenwei Concrete Limited and Shenzhen China Resources Shengcheng Concrete were both approved by the Shenzhen government on June 12, 2009.

- Goodsales Investments Limited, a wholly-owned subsidiary of China Resources Concrete Limited, transferred to China Resources Cement Holdings (Hong Kong) Limited its 100% equity interest in Shenzhen Concrete for RMB25 million, based on the amount contributed by the transferor to the registered capital of Shenzhen Concrete, and the transfer was settled through current accounts. The share transfer relating to Shenzhen Concrete was approved by the Shenzhen Government on July 16, 2009.

HISTORY AND REORGANIZATION

The following chart shows our corporate structure immediately before the Reorganization:



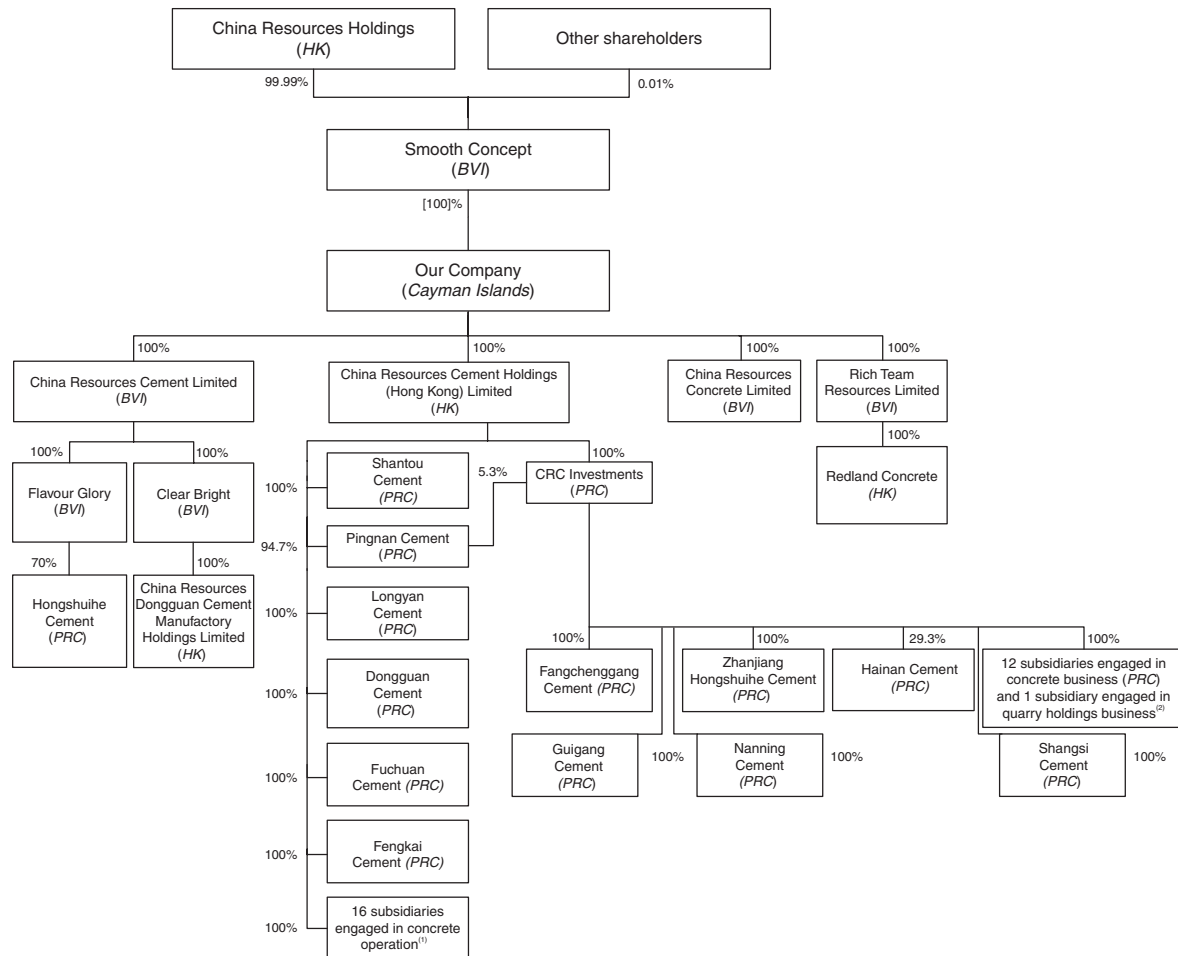
⁽¹⁾ These comprise China Resources Concrete (Guigang) Limited, China Resources Concrete (Nanning Qingxiu) Limited, China Resources Concrete (Fujian) Limited

⁽²⁾ These comprise China Resources Concrete (Beihai) Limited, China Resources Concrete (Fangchenggang) Limited, China Resources Concrete (Foshan) Company Limited, China Resources Concrete (Fuzhou) Limited, China Resources Concrete (Fuzhou Development Zone) Limited, China Resources Concrete (Jiangmen Tangxia) Limited, China Resources Concrete (Liuzhou) Limited, China Resources Concrete (Qinzhou) Limited, Shenzhen Concrete, China Resources Concrete (Zhaoqing) Limited, Foshan China Resources Shun'an Concrete Limited, Heyuan China Resources Pengyuan Concrete Limited, Shenzhen China Resources Shengcheng Concrete Limited, Shenzhen China Resources Wenwei Concrete Limited, China Resources Concrete (Dongguan Fengcheng) Limited, China Resources Concrete (Guangxi) Limited, China Resources Concrete (Jiangmen) Limited, China Resources Concrete (Nanning Xixiangtang) Limited, China Resources Dongguan Concrete Company Limited.

⁽³⁾ The remaining 30% interest in Hongshuihe Cement is held by Guangxi Hongshuihe Cement Joint Stock Company Limited, an indirect approximate 72.14%-owned subsidiary of our Company.

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The following chart shows our corporate structure as of the Latest Practicable Date:



⁽¹⁾ These comprise China Resources Concrete (Beihai) Limited, China Resources Concrete (Beihai Tieshangang) Limited, China Resources Concrete (Fangchenggang) Limited, China Resources Concrete (Foshan) Company Limited, China Resources Concrete (Fuzhou Development Zone) Limited, China Resources Concrete (Jiangmen Tangxia) Limited, China Resources Concrete (Liuzhou) Limited, China Resources Concrete (Qinzhou) Limited, China Resources Concrete (Zhaoqing) Limited, Heyuan China Resources Pengyuan Concrete Limited, Shenzhen China Resources Shengcheng Concrete Limited, Shenzhen China Resources Wenwei Concrete Limited, China Resources Concrete (Zhanjiang) Limited and China Resources Concrete (Fuzhou) Limited, Shenzhen Concrete and Foshan China Resources Shun'an Company Limited.

⁽²⁾ These comprise China Resources Concrete (Dongguan Fengcheng) Limited, China Resources Concrete (Guangxi) Limited, China Resources Concrete (Jiangmen) Limited, China Resources Concrete (Nanning Xixiangtang) Limited, China Resources Dongguan Concrete Company Limited, China Resources Concrete (Nanning) Limited, China Resources Concrete (Guigang) Limited, China Resources Concrete (Nanning Qingxiu) Limited, China Resources Concrete (Fujian) Limited, China Resources Concrete (Fengkai) Limited, China Resources Concrete (Gaoyao) Limited, China Resources Concrete (Laibin) Limited, China Resources Fengkai Quarry Limited.

BUSINESS

BUSINESS

Overview

We are a leading cement and concrete producer in Southern China. We are the largest NSP cement and clinker producer in Southern China by production capacity according to the China Cement Net (中國水泥網)⁽¹⁾ and the second largest concrete producer in China by sales volume according to the China Concrete Website (中國混凝土網)⁽²⁾. 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 cement products are mainly sold in Guangdong, Guangxi and Fujian under the trademarks “華潤” (Huarun) and “紅水河” (Hongshuihe). The trademark “紅水河” (Hongshuihe) is mainly used for our products sold in Guangxi and was already being used by Hongshuihe Cement before it was acquired by our Company in 2003. We use the trademark “華潤” (Huarun) through a non-exclusive license granted by China Resources National Corporation, which we further sub-license to our subsidiaries in the PRC so as to enable our Group to use such trademark in the sale and production of our products in China, mainly in Guangdong, Guangxi and Fujian.

As at June 30, 2009, we had a total of 11 clinker production lines and 31 cement grinding lines. We believe we are one of the few cement producers in China to equip all of their clinker production lines with advanced NSP technology and residual heat recovery generators that recycle the heat generated during the clinker production process. Our clinker plants and cement grinding plants are located in Binyang, Pingnan, Guigang, Nanning and Fangchenggang in Guangxi, and Dongguan and Zhanjiang in Guangdong. Our clinker production facilities are strategically located close to our limestone quarries, which supply most of the limestone required for our clinker production. We also have 20 concrete batching plants currently in operation in Guangxi, Guangdong, Fujian and Hong Kong. After we re-acquired Redland Concrete on December 31, 2008, we added three concrete batching plants located in Hong Kong. One of the three batching plants is presently leased to an Independent Third Party. As at June 30, 2009, we had an annual production capacity of 22.5 million tons of cement, 15.7 million tons of clinker and 12.3 million cubic meters of concrete. We expect that our annual production capacity will reach 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.

Our principal products are cement, clinker and concrete. Our products are primarily used in the construction of high-rise buildings and infrastructure projects such as hydroelectric power stations, dams, bridges, ports, airports and roads. Our customers include infrastructure construction companies, PRC and Hong Kong Government entities and property developers in China and Hong Kong. Our products have been used in a number of high-profile and large scale projects in China, including the Guangzhou-Shenzhen-Hong Kong Express Railway (廣深港高速鐵路), Guanghe Expressway (廣賀高速公路), Guiwu Expressway (桂梧高速公路), Guangwu Expressway (廣梧高速公路), Guangzhu Railway (廣珠城際軌道) and Wuguang Express Railway (武廣高速鐵路).

We sell most of our products directly to end users through our extensive sales network, and the remainder of our products through distributors. As at the Latest Practicable Date, we have 18 regional sales offices covering 31 cities in Southern China.

In 2008, we sold 13.2 million tons of cement, 1.3 million tons of clinker and 5.6 million cubic meters of concrete. Our turnover from continuing operations was HK\$2,111.7 million, HK\$3,743.2 million and HK\$5,781.3 million in 2006, 2007 and 2008, respectively, representing a CAGR of 65.5%. Our net profit from continuing operations for the same periods was HK\$82.6 million, HK\$358.8 million and HK\$783.7 million, respectively, 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.

⁽¹⁾ According to a report by the China Cement Net issued on July 28, 2009. China Cement Net is an independent website that provides cement industry information.

⁽²⁾ China Concrete Website is an independent website that provides concrete industry information.

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Our principal production facilities, limestone quarries, concrete batching plants and regional sales offices are located in the following locations:



⁽¹⁾ Our principal production facilities are located in Pingnan, Binyang, Guigang and Nanning where there are five clinker production lines and nine cement grinding lines in Pingnan, two clinker production lines and six cement grinding lines in Binyang, two clinker production lines and four cement grinding lines in Guigang, two clinker production lines and four cement grinding lines in Nanning. In addition, we have three cement grinding lines in Dongguan, three cement grinding lines in Zhanjiang and two cement grinding lines in Fangchenggang.

⁽²⁾ In terms of our 20 concrete batching plants, we have two in Dongguan, two in Foshan, two in Jiangmen, four in Nanning, one in each of Beihai, Fangchenggang, Fengkai, Fuzhou, Heyuan, Qinzhou and Shenzhen and three in Hong Kong.

Our Competitive Strengths

We have a strong market position as a leading cement and concrete producer in Southern China.

We are a leading cement and concrete producer in Southern China. We are the largest NSP cement and clinker producer in Southern China by production capacity according to the China Cement Net (中國水泥網) and the second largest concrete producer in China by sales volume according to the China Concrete Website (中國混凝土網). Our products have been used in a number of high-profile construction and infrastructure projects, including the Guangzhou-Shenzhen-Hong Kong Express Railway (廣深港高速鐵路), Guanghe Expressway (廣賀高速公路), Guiwu Expressway (桂梧高速公路), Guangwu Expressway (廣梧高速公路), Guangzhu Railway (廣珠城際軌道) and Wuguang Express Railway (武廣高速鐵路). Our cement is mainly sold under the trademarks of “華潤” (Huarun) and “紅水河” (Hongshuihe), both of which are well known within the building and construction industry in China. According to the *Notice of Publishing the List of Large Enterprises (Group) for Cement Industry Structure Regulation Emphatically Supported by the State* (關於公佈國家重點支持水泥工業結構調整大型企業(集團)名單的通知) issued by the NDRC, the Ministry of Land

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and Resources and the PBOC in December 2006⁽¹⁾, we are one of 60 enterprises which would receive government support in the form of priority with respect to project approval, land use rights and financing. Our leading market position and well-established brand name are mainly attributable to strong customer loyalty and cost advantages derived from the strategic locations of our production facilities.

We are well positioned to capture growth opportunities in the construction industry in Southern China.

Our target markets are Guangdong, Guangxi, Fujian and Hainan, which are among the fastest growing economic areas in China. Driven by rapid industrialization and urbanization, GDP growth in these provinces for 2008 was well above the national average of 9.0%. In 2008, GDP in Guangdong, Guangxi and Fujian increased by 10.1%, 12.8% and 13.0%, respectively, compared to 2007. For the first six months of 2009, Guangdong's GDP⁽²⁾ was RMB1.65 trillion, an increase of 7.1% over the same period of 2008. For the first six months of 2009, Guangxi's GDP was RMB330 billion, an increase of 13.0% over the same period of 2008. For the first six months of 2009, the GDP of Fujian was RMB473.9 billion, an increase of 19.8% over the same period of 2008. There was also a significant increase in the fixed asset investment, or FAI, in our target markets in 2008. In 2008, FAI in Guangdong, Guangxi and Fujian increased by 16.5%, 27.2% and 22.3%, respectively, compared to 2007. For the first six months of 2009, Guangdong's FAI increased 15.5% over the same period of 2008. For the first six months of 2009, Guangxi's FAI increased 57.7% over the same period of 2008. For the first six months of 2009, Fujian's FAI increased 19.8% over the same period of 2008. In 2008, the aggregate production volume of cement in Guangdong and Guangxi accounted for approximately 10.5% of the total production volume of cement in China. As one of the market leaders with an extensive sales network covering Dongguan, Jiangmen, Foshan, Zhuhai, Zhongshan, Zhaoqing, Shantou, Shanwei, Chaozhou, Jieyang, Zhanjiang, Maoming, Yangjiang, Huizhou, Guangzhou, Shenzhen and Yunfu in Guangdong, Guigang, Yulin, Wuzhou, Nanning, Laibin, Liuzhou, Qinzhou, Beihai and Fangchenggang in Guangxi, Xiamen, Fuzhou, Quanzhou and Putian in Fujian and Haikou in Hainan, we believe we are well-positioned to capture growth opportunities in Southern China.

The PRC concrete market is also developing rapidly. In 2008, the annual concrete production volume in Guangdong and Guangxi increased by 7.1% and 28.8%, respectively, compared to 2007. Due to the rapid development of cities in Southern China, our Directors believe that concrete consumption will continue to increase, having regard to the GDP and FAI of Guangdong, Guangxi and Fujian from 2006 to 2008 and our Group's turnover attributable to its concrete business. The PRC Government has implemented policies which aim to prohibit on-site batching. Increasing demand for high quality concrete products and industry consolidation have created many opportunities for large-scale concrete producers like us. We develop our concrete business through our extensive distribution channels to take advantage of our established transportation network and we believe that we are well-positioned to capture opportunities in the fast growing concrete market in Southern China.

We benefit from convenient access to limestone quarries and transportation channels as well as an extensive sales network.

Our clinker production facilities are strategically located near our limestone quarries with convenient access to waterways and public roadways. The strategic location of our principal production facilities allows us to utilize waterway transportation such as the Xijiang River, which is more cost effective than road or railway transport for delivery of raw materials and finished products. We have established silo terminals for storing cement in transit. To improve navigation on the Xijiang River, the PRC Government expanded the waterway

⁽¹⁾ According to this notice, the 60 enterprises were selected mainly because they are major enterprises (or groups) that conform with the national industrial policy and planning for the development of the cement industry; they mainly adopt the new dry process in their production, and possess a relatively large scale and a strong capability to adapt themselves to regional markets; in addition, they have recorded good operating results, are expected to develop well in the future, operate in accordance with the law and have a strong sense of social responsibility.

⁽²⁾ For the purpose of this paragraph, the growth rate represents the nominal GDP growth rate.

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between Guigang and Wuzhou and between Wuzhou and Zhaoqing. This project was completed in June 2009 and vessels with a capacity of up to 2,000 dwt are now able to pass through these parts of the Xijiang River. In addition, the PRC Government has approved the construction of an express railway connecting Nanning and Guangzhou, which commenced in November 2008 and is expected to be completed by May 2013. We believe that completion of these projects will significantly improve the efficiency of our logistics network and enable us to transport raw materials and finished products more efficiently and cost effectively.

We sell a majority of our cement products directly to end users through our extensive sales network and the remainder through distributors. As of the Latest Practicable Date, we have 18 regional sales offices covering 31 cities in Southern China. Our extensive sales network enables us to provide our customers with convenient access to our products and to maintain a close relationship with our customers.

We believe we are one of the few cement producers in China to equip all of their clinker production lines with advanced NSP technology and residual heat recovery generators that recycle the heat generated during the clinker production process.

We have equipped all of our clinker production lines with advanced NSP technology and residual heat recovery generators that recycle the heat generated in the clinker production process. The use of advanced technologies enables us to reduce energy costs, achieve high production efficiency, minimize pollution and improve product quality. The PRC Government has voiced strong support for advanced NSP technology and strengthened measures to phase out non-NSP cement production which is less efficient and environmentally friendly. As one of 60 enterprises supported by the PRC Government, we have benefited from favorable government policies on project approval, land use rights and financing. In 2008, cement produced using non-NSP technologies represented approximately 37.1% of the cement produced in China. According to the PRC Government’s policy, based on targets published in 2008, cement produced using non-NSP technologies in Guangdong and Guangxi should be approximately 42.9% and 21.6% by 2010, respectively. For 2008, the proportions of cement produced using non-NSP technology in Guangdong and Guangxi were 49.0% and 40.0%, respectively. We believe that the trend towards elimination of non-NSP cement production capacity will create opportunities for us to capture additional customers and increase our market share.

We have convenient access to high quality limestone resources.

Limestone is the principal raw material used in the production of clinker. We have obtained the mining rights to limestone quarries which are located near our clinker production facilities in Pingnan, Binyang, Guigang and Nanning. These quarries provide our clinker production facilities with a stable supply of high quality limestone (i.e., limestone with a relatively high level of calcium oxide) at low transportation costs and sufficient reserves to meet our production requirements. We have plans to apply for additional mining rights in respect of certain quarries in Fengkai and other areas. Please see the section headed “Business — Raw Materials” for more details on our mining rights.

We have a stable and experienced management team.

Our management team, the majority of whom have worked in our Group for more than six years since the commencement of our operations, have solid industry knowledge, extensive operational experience and have a proven track record of generating rapid growth for our Group. For example, our chairman, Madam Zhou Junqing, has over 20 years’ experience in international trade and corporate management as well as cement operations. Madam Zhou has been an executive director of our Company since June 19, 2003. Other members of our senior management team also have significant experience in key aspects of our operations, including production management, sales and distribution, research and development and delivery logistics.

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Our Strategies

Strengthen our leading position through capacity expansion in selected markets

We intend to strengthen our leading position in Southern China and achieve better economies of scale through organic growth by constructing additional production facilities or through acquisitions. We have commenced or are planning the construction of additional clinker and cement production lines in Fengkai, Fuchuan, Shantou, Tianyang and Wuxuan. One clinker production line in Nanning has commenced production in January 2009 and two clinker production lines in Pingnan have commenced production in March and June 2009 respectively, which increased our production capacities by 4.7 million tons of clinker and 6.1 million tons of cement. We expect to complete another four clinker production lines in Fengkai, Shangsi and Fuchuan by the first quarter of 2010, which will increase our production capacities further by 6.2 million tons of clinker and 5.7 million tons of cement. Furthermore, we expect to construct one cement grinding plant in Shantou, by the third quarter of 2009, which will increase the annual production capacity by approximately 1.8 million tons. We also plan to construct up to six additional cement production lines with a total annual production capacity of 5.7 million tons and four additional clinker production lines with annual production capacity of 6.1 million tons in Fengkai, Tianyang and Wuxuan. We have also commenced construction of additional concrete batching plants in Beihai, Zhanjiang, Fuzhou (Zhuqi), Fujian (Putian), Zhaoqing (Gaoyao) and Guigang. We expect that those concrete batching plants will commence production by the end of 2009 (of which the batching plant in Guigang has commenced production in September 2009), which will increase our total annual production capacity by 3.6 million cubic meters. As a result, we expect that our annual production capacity for cement, clinker and concrete will reach approximately 30.0 million tons, 21.9 million tons and 15.9 million cubic meters, respectively, by the first quarter of 2010.

Continue to improve our transportation and logistics network

Due to the strategic locations of our production facilities, we are able to deliver finished products to our target markets efficiently. For example, the Xijiang River provides us with a large capacity and low cost means of transporting raw materials and finished products to various regions in Guangdong and Guangxi. In addition, we expect to complete the construction of two concrete batching plants, located along the coast of Fujian, by the end of 2009, which will allow us to transport raw materials and finished products to coastal regions of Fujian by sea. As part of our efforts to improve our transportation and logistics network, we may build our own, exclusive fleet of cement bulk carriers in the future. This involves feasibility studies as to the costs and advantages of possessing our own fleet.

Continue to develop our sales and marketing capability for our cement operations and strengthen our distribution network

We will continue to develop our sales and marketing capability for our cement operations. As of the Latest Practicable Date, we have 18 regional sales offices, all of which are centrally managed by our marketing department at our headquarters in Guangdong. Our sales network currently covers 31 cities in Southern China. We intend to establish an additional sales office in Yangjiang and extend our sales coverage to seven additional cities (Shangsi, Dongxing, Tianyang, Wuxuan, Guilin, Fuchuan and Hezhou) and strengthen our marketing efforts to increase market penetration in Southern China. We intend to strengthen our distribution network by constructing or acquiring more silo terminals and cement grinding plants situated along the Xijiang River and in coastal cities in Southern China. We intend to buy, build or lease silos and cement grinding plants which are or will be located as close as possible to our customers and distributors. We expect that such strategic locations will increase our turnover and enhance the quality of our service to our customers. We intend to finance these expansion plans with bank borrowings. We will continue to develop our concrete operations along our extensive cement distribution channel to take advantage of our established distribution network.

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Continue to improve our operational efficiency

Our clinker production facilities are strategically located in Guangxi, a convenient location for large scale clinker production due to its concentrated reserves of high quality limestone and relatively low cost of labor and power supplies. We believe the locations of our plants enable us to minimize our production and transportation costs and optimize our operational efficiency. We aim to improve further our operational efficiency. We source our coal from Guizhou, Yunnan, Hunan, as well as Shanxi and Inner Mongolia in Northern China. Due to changes in the export policy for coal in Vietnam and coal shortages in Yunnan and Hunan, we plan to increase our purchases of better quality coal from Northern China, which burns more efficiently. Purchasing larger quantities of coal from fewer suppliers enables us to improve our transportation efficiency, and using coal of better quality decreases our coal consumption, which may in turn reduce our production costs. We plan to source gypsum and other raw materials from supply sources of better quality, carry out technology improvement projects, increase our production capacity to achieve economies of scale and install residual heat recovery generators.

Continue to source high quality limestone resources

As our business continues to grow, our demand for limestone will increase. As part of the agreement with the relevant local governments to invest in Fengkai, Shangsi and Fuchuan, we will construct clinker production lines and acquire mining rights in respect of certain quarries in Fengkai and other areas. We are planning to commence the construction of four clinker production lines in Fengkai, Shangsi and Fuchuan. We expect that these production lines will commence production by the first quarter of 2010. We have also applied for mining rights from the Guigang municipal government for the Tiantang Ling Sandstone Quarry and we expect that we will obtain the mining right before the end of 2009. We are in the process of applying for the mining rights in respect of another two limestone mines in Fengkai, Guangdong (namely, Baisha Limestone Quarry and Dawangtang Limestone Quarry) and we expect that the application process will take between six months to one year to complete. We acquired 29.3% of the equity interest of Hainan Cement. The completion of the proposed acquisition remains subject to government approval. We also plan to acquire an additional 34.14% of the equity interest in Hainan Cement. Completion is subject to satisfaction of a number of conditions, including among others, obtaining approvals from SASAC and MOFCOM. Hainan Cement owns mining rights to two limestone quarries with a total reserve capacity of 170 million tons of limestone. These limestone quarries produce high quality limestone containing a relatively high level of calcium oxide and almost no magnesium oxide, and such composition is similar to natural cement stone. We will continue to explore other high quality limestone resources to satisfy our production requirements.

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Products

Our principal products are cement, clinker and concrete. Our cement is sold under the trademarks “華潤” (Huarun) and “紅水河” (Hongshuihe) and is primarily used in the construction of high-rise buildings and infrastructure projects such as hydroelectric power stations, dams, bridges, ports, airports, railway and roads. We produce different types of cement by mixing different proportions of gypsum, blast furnace slag and other additives to clinker, a semi-finished product produced from limestone through a rotary kiln process.

Set out below are our main products:

Product	Grade	National Standards	Characteristics	Application	Target Customers
Portland Cement	PII42.5, PII52.5	Insoluble≤1.50%; Loss≤3.5%; SO ₃ ≤3.5%; MgO≤5.0%; 3-day compressive strength≥22MPa (42.5) and ≥27MPa (52.5); 28-day compressive strength≥42.5MPa (42.5) and ≥52.5MPa (52.5); 3-day fractural load≥4.0MPa (42.5) and ≥5.0MPa (52.5); 28-day fractural load≥6.5MPa (42.5) and 7.0MPa (52.5);	High strength at the initial phase; high hydration heat; high freeze-resistance; low heat-resistance; low corrosion-resistance; low dry shrinkage.	Construction of buildings and infrastructure which require high strength, such as airport runways and bridges	Concrete pile factories and construction companies
Ordinary Portland Cement	PO42.5	Loss≤5.0%; SO ₃ ≤3.5%; MgO≤5.0%; 3-day compressive strength≥17MPa; 28-day compressive strength≥42.5MPa; 3-day fractural load≥3.5MPa; 28-day fractural load≥6.5MPa;	High strength at the initial phase; high hydration heat; high freeze-resistance; low heat-resistance; low corrosion-resistance; low dry shrinkage.	Construction of structures which require short construction time, such as roads and bridges. It is also used for the construction of high rise buildings	Concrete batching plants and construction companies
Composite Portland Cement	PC32.5	SO ₃ ≤3.5%; MgO≤6.0%; 3-day compressive strength≥10MPa; 28-day compressive strength≥32.5MPa; 3-day fractural load≥2.5MPa; 28-day fractural load≥5.5MPa;	Low strength at the initial phase; low hydration heat; high heat-resistance; low acid-corrosion-resistance; using coal ash powder and coal gangue as composite raw materials; stable strength at the initial stage and late stage.	Construction of structures which do not require high strength, such as low rise buildings	Distributors and retailers
Clinker	—			Production of cement	Cement grinding plants
Concrete	—			Construction of buildings and other structures	Construction companies

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Production Facilities

Our production plans are driven by demand, which has a direct impact on our utilization rate. Production plans of our plants are coordinated by the production department with regular meetings among department heads.

As at June 30, 2009, we had 11 clinker production lines and 31 cement grinding lines with a total annual production capacity of 15.7 million tons and 22.5 million tons, respectively. All of our clinker production lines employ advanced NSP technology, which is more energy efficient and environmentally friendly than non-NSP technologies. It is the PRC Government's policy to phase out small-scale cement producers which employ less advanced technologies, and to comply with relevant environmental protection requirements and product quality standards. We have 20 concrete batching plants currently in operation in Guangxi, Guangdong, Fujian and Hong Kong. After we re-acquired Redland Concrete on December 31, 2008, we also have three concrete batching plants in Hong Kong. We operate two in Yuen Long and Yau Tong, and we currently lease our third plant in Chai Wan to an Independent Third Party. Our concrete batching plants are strategically located near our target markets to ensure timely delivery of our concrete products to our customers. As at June 30, 2009, our concrete batching plants had a total annual production capacity of approximately 12.3 million cubic meters. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the sales of our clinker, cement and concrete products were as follows:

Turnover	For the year ended December 31,			For the six months ended June 30,
	2006	2007	2008	2009
		('000 HK\$)		
Cement	1,110,480	2,180,921	3,735,796	1,784,777
Clinker	208,850	247,060	332,293	220,372
Concrete	792,365	1,315,174	1,713,189	733,590
Total	<u>2,111,695</u>	<u>3,743,155</u>	<u>5,781,278</u>	<u>2,738,739</u>

Sales volume	For the year ended December 31,			For the six months ended June 30,
	2006	2007	2008	2009
		('000 tons/'000 m ³ (concrete))		
Cement	5,615	9,035	13,206	6,898
Clinker	1,266	1,236	1,348	1,078
Concrete	2,952	4,708	5,552	2,457
Total	<u>9,833</u>	<u>14,979</u>	<u>20,106</u>	<u>10,433</u>

Average unit price ⁽¹⁾	For the year ended December 31,			For the six months ended June 30,
	2006	2007	2008	2009
	HK\$	HK\$	HK\$	HK\$
Cement	197.7	241.4	282.9	258.7
Clinker	165.0	199.9	246.5	204.5
Concrete	268.4	279.4	308.6	298.6

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

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The table below sets forth the number of production line, pro-rated production capacity and production volume, and utilization rate by product categories for the periods indicated.

	Year ended			Six months ended
	December 31, 2006	December 31, 2007	December 31, 2008	June 30, 2009
Cement				
Number of Cement Production Lines	22	23	25	31
Pro-rated Production Capacity ('000 tons)	9,274.0	13,153.5	16,374.0	8,782.8
Production Volume ('000 tons)	6,303.6	9,673.5	14,070.5	7,456.4
Utilization Rate (%)	68.0	73.5	85.9	84.9
Clinker				
Number of Clinker Production Lines	6	7	8	11
Pro-rated Production Capacity ('000 tons)	6,076.0	8,354.5	10,937.8	6,308.5
Production Volume ('000 tons)	6,476.4	9,093.7	12,632.0	7,574.6
Utilization Rate (%)	106.6	108.8	115.5	120.1
Concrete				
Number of Batching Plants	10	16	19	20
Pro-rated Production Capacity ('000 m ³)	4,850.0	7,525.0	10,225.0	6,050.0
Production Volume ('000 m ³)	2,951.7	4,707.8	5,552.2	2,456.5
Utilization Rate (%)	60.9	62.6	54.3	40.6

The pro-rated production capacity does not represent the actual annualized production capacity. For cement and clinker, the pro-rated production capacity is calculated based on the designed production capacity of each production line per day multiplied by 310 days per year or 155 days per six months. For concrete, the pro-rated production capacity is calculated based on the designed production capacity of each production line per load multiplied by operating hours per day (8 hours) divided by the estimated time per load multiplied by 310 days per year or 155 days per six months.

For the pro-rated production capacity of our batching plants for the year ended December 31, 2008, we have included the January and February 2008 concrete production capacity of Redland Concrete into our calculation as we disposed of Redland Concrete in March 2008 and re-acquired it on December 31, 2008.

We expect our production capacity will reach 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.

In respect of the figures provided in the above table for 2007 and 2008, some of our production lines did not commence production until the fourth quarter of 2007 or during 2008. The pro-rated production capacity for cement, clinker and concrete from the date of commencement of operation in 2007 was approximately 13.2 million tons, 8.4 million tons and 7.5 million cubic meters, respectively. These figures translated into utilization rates of 73.5%, 108.8% and 62.6% for our cement, clinker, and concrete production facilities in 2007, respectively.

Our clinker production facilities were operating at above their designed production capacities from 2006 to June 30, 2009. The utilization rate for our cement production facilities also increased from 68.0% in 2006 to 84.9% in June 2009. During the same period, the utilization rate of concrete production facilities ranged from approximately 40.6% to 60.9%. The utilization rate reveals our corporate strategies and a common practice in concrete industry in the PRC: (1) our strategy is to expand into new markets when we identify suitable opportunities, and develop cement and concrete capacities to capture increasing market demand in various regions. As we establish and develop our presence in the new markets, some of our facilities will not be operating at their optimal capacity. We believe that it is reasonable to continue expanding our business, as the demand for, and the sales of our cement and concrete products has steadily increased during the Track Record Period; (2) in designing the capacity of our cement production lines, we usually include a buffer capacity that enables us to respond to any increase in utilization of our production lines and growth of demand for our cement products; and

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(3) the utilization rate of concrete production facilities is generally low across the industry in the PRC given the nature of the concrete business. The production capacity of a facility is generally calculated on the basis of eight operating hours per day. However, the actual operating hours are less than eight hours per day due to the limitation imposed by local governmental authorities as well as downtime spent for cleaning the facilities. Thus, we are of the opinion that the utilization rates of our cement and concrete production facilities were reasonable during the Track Record Period.

Our Directors have taken into consideration the recent global and PRC financial performance, situation and development, and they are of the view that our expansion plan is justified because:

- our clinker production was operating above capacity and our cement production was operating at a utilization rate of 85.9% in December 2008;
- our Directors believe the demand for our products will continue to rise in the regions where our Group operates due to the factors disclosed in the section headed "Industry Overview" of this document. According to the National Bureau of Statistics of China, the GDP of Guangdong and Guangxi grew at a CAGR of 17.2% and 21.9% from 2006 to 2008, respectively. During the same period, the FAI of Guangdong and Guangxi grew at a CAGR of 17.4% and 29.7%, respectively. Guangdong's GDP in 2008 was RMB3.6 trillion, representing an increase of 16.1% over 2007. Guangdong's FAI was RMB1.1 trillion in 2008, representing a 16.5% increase over 2007. Guangxi's GDP in 2008 was RMB717.2 billion, representing an increase of 20.4% over 2007. In 2008, Guangxi's FAI was approximately RMB377.8 billion, representing an increase of 29.1% over 2007;
- the increase in the size of the cement industry in Guangdong and Guangxi also shows the industry believes that the growing demand warranted expansion. Guangdong's cement industry increased its volume of cement production from 88.5 million tons in 2006 to 97.8 million tons in 2007. For 2008, Guangdong's cement industry produced 94.8 million tons of cement, only a slight decrease from 2007. Guangxi's cement industry increased its volume of cement production from 36.6 million tons in 2006 to 43.5 million tons in 2007. For 2008, Guangxi's cement industry produced 51.9 million tons of cement, representing an increase of 19.3% over 2007;
- our Directors believe the economic growth in China and the markets where we operate will continue to create a number of opportunities for new construction projects which in turn will create greater demand for our products. As at July 2009, the International Monetary Fund's estimate for China's economic growth in 2009 was approximately 7.5% and approximately 8.5% in 2010. In addition, as of the first six months of 2009, property sales rose 53.0% against a year earlier, and real estate investment growth stood at 9.9%. Continued strength in the real estate sector may lead to investment in construction, which would spur demand for cement and concrete;
- according to the China Cement Association, NSP technology accounted for approximately 62.9% of the 1,400 million tons of cement produced in China in 2008. Together with the PRC Government's policies to prohibit the use of vertical kilns, our Directors believe the demand for our NSP products will continue to grow; and
- we believe the PRC Government's Eleventh Five-Year Plan to implement major infrastructure and development projects between 2006 and 2010 will further increase the demand for our products. Moreover, the PRC Government has recently introduced measures aimed at moderating the effects of the global economic downturn which could benefit the real estate and construction sectors. Such measures have included a general RMB4 trillion stimulus plan that includes initiatives to promote the PRC economy infrastructure development, tax breaks for home buyers, lower down-payment requirements for home purchases and a RMB400 billion package to build affordable homes.

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Production Process⁽¹⁾

Clinker

Raw materials such as limestone are fed through primary and secondary crushers or hammer mills. The raw materials are ground and transferred into a kiln. A kiln is a large, cylindrical steel tube which acts as an oven and heats the above mixtures at temperatures of up to 1,450°C. Rotary kilns are placed horizontally at a slight angle. The raw materials are fed into the higher end of the rotary kiln, and as they approach the lower end, a blast flame heats and chemically alters them. As the raw materials move through the kiln, they release certain elements in gas form, while the remaining material solidifies into small, marble-sized pieces called clinker.

Cement

Clinker is crushed into fine powder. Gypsum and other materials such as volcanic ash and fly ash are added to the ground clinker, resulting in a powder that is Portland Cement. Gypsum is a key addition which adjusts the setting time of the cement, when cement is eventually used in the production of concrete. The production process of cement contains a series of chemical and physical tests, and specification analyses to ensure the quality of the cement. Coagulation times vary slightly depending on the type of cement produced. Our Portland Cement, Ordinary Portland Cement and Composite Portland Cement products each have initial coagulation times of equal to or more than 45 minutes. Portland Cement has a final coagulation time of less than or equal to 390 minutes, while Ordinary Portland Cement and Composite Portland Cement each have final coagulation times of less than or equal to 600 minutes.

Concrete

Concrete is a mixture of paste and aggregates. The paste, composed of Portland Cement and water, coats the surface of the fine and coarse aggregates. Through a chemical reaction called hydration, the paste hardens and gains strength to form concrete. The key to achieving strong and durable concrete is the careful proportioning and mixing of the ingredients. A properly designed concrete mixture will possess the desired workability for the fresh concrete and the required durability and strength for the hardened concrete. Typically, a mixture is about 10 to 15 percent cement, 60 to 75 percent aggregate and 15 to 20 percent water.

Raw Materials

Limestone

The principal raw material used in the production of clinker is limestone. Most of the limestone that we use for cement production is sourced from our own quarries. We carry out limestone excavation activities to meet the internal demand of limestone and we have made no external sales of limestone excavated during the Track Record Period.

We have obtained the mining rights in respect of certain quarries in Pingnan, Guigang, Binyang and Nanning, which are located near our clinker production lines. The limestone excavated from these quarries is transported to the crushing mill at our plants for further processing and then transported to storage facilities by conveyer belt.

⁽¹⁾ For more detailed information, please see the sections headed “Industry Overview — Cement Production” and “Industry Overview — Concrete Production” in this document.

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The table below sets forth certain information regarding our limestone quarries in the locations indicated⁽¹⁾:

Location	Quarries	Available limestone reserves (in million tons)	Date extraction activities commenced
Binyang, Guangxi	Fenghuangshan Limestone Quarry (鳳凰山石灰石礦)		
	Longling Limestone Quarry (龍嶺石灰石礦)	70	December 2002
Pingnan, Guangxi	Hejing Limestone Quarry (河景石灰石礦)	80	October 2004
Guigang, Guangxi	Dingxiangshan (North) Limestone Quarry (定祥山石灰石礦北區)		
	Dingxiangshan (South) Limestone Quarry (定祥山石灰石礦南區)	160	December 2005
Nanning, Guangxi	Goutoushan Limestone Quarry (狗頭山灰岩礦)	80	December 2007

⁽¹⁾ We have not commenced extraction of the Dawangtang Limestone Quarry and Shuangfeng Limestone Quarry as the mining rights were only obtained in May 2009.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we excavated 8.2 million tons, 11.8 million tons, 17.3 million tons and 10.3 million tons of limestone, respectively.

The mining rights obtained by us in relation to our limestone quarries are as follows:

Name of Quarry	Mining Right Owner	Period of Validity	Area (km ²)	Annual Production Scale (‘000 tons)
Hejing Limestone Quarry (河景石灰石礦)	Pingnan Cement	June 27, 2006 to October 27, 2024	0.7760	2,090
Dingxiangshan (North) Limestone Quarry (定祥山石灰石礦北區)	Guigang Cement	July 2004 to July 2024	0.4017	2,031
Dingxiangshan (South) Limestone Quarry (定祥山石灰石礦南區)	Guigang Cement	June 2005 to June 2025	0.5776	2,007
Fenghuangshan Limestone Quarry (鳳凰山石灰石礦)	Hongshuihe Cement	May 2003 to May 2013	1.2002	1,500
Longling Limestone Quarry (龍嶺石灰石礦)	Hongshuihe Cement	May 2003 to May 2011	0.5413	900
Goutoushan Limestone Quarry (狗頭山灰岩礦)	Nanning Cement	June 1, 2007 to June 1, 2037	0.4064	2,270
Dawangtang Limestone Quarry (大旺塘石灰岩礦)	Fengkai Quarry	May 2009 to June 2012	0.3344	60
Shuangfeng Limestone Quarry (雙峰石灰石礦)	Fengkai Quarry	May 2009 to May 2011	0.2116	80

We have applied or are planning to apply for the mining rights in respect of the following quarries:

Name of Quarry	Location	Area (km ²)	Annual Production Scale (‘000 tons)	Mining Rights Applicant	Application Date	Expected Time for Obtaining Mining Rights
Tiantang Ling Sandstone Quarry	Guigang, Guangxi	0.2	95	Guigang Cement	July 2008	Before the end of 2009
Baisha Limestone Quarry	Fengkai, Guangdong	3.3	N/A	Fengkai Cement	August 2009	Before August 2010
Dawangtang Limestone Quarry	Fengkai, Guangdong	1.5	N/A	Fengkai Cement	August 2009	Before August 2010

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We have obtained the land use right certificates in respect of land occupied by the following quarries:

Name of Quarry	Area (km ²)	Type of Land	Land Use Right Certificate		
			Number	Grant Date	Expiry Date
Hejing Limestone Quarry (河景石灰石礦)	2.9552	Granted	Ping Guo Yong (2008) No. 260015046-1	June 17, 2008	September 20, 2054
	0.6443	Granted	Ping Guo Yong (2008) No. 260015049-1	June 17, 2008	September 20, 2054
Fenghuangshan Limestone Quarry (鳳凰山石灰石礦)	0.0006	Granted	Bin Guo Yong (2003) No. 534	May 21, 2003	April 15, 2053
	0.0007	Granted	Bin Guo Yong (2003) No. 535	May 21, 2003	April 15, 2053
	0.0020	Granted	Bin Guo Yong (2003) No. 536	May 21, 2003	April 15, 2053
	0.6836	Granted	Bin Guo Yong (2003) No. 537	May 21, 2003	April 15, 2053
	0.0114	Granted	Bin Guo Yong (2003) No. 538	May 21, 2003	April 15, 2053
Longling Limestone Quarry (龍嶺石灰石礦)	0.8132	Granted	Bin Guo Yong (2002) No. 09	January 2002	January 23, 2052

We have confirmed with the local state-owned land and resources departments of Guangxi and Fengkai that the land occupied by the limestone quarries used by Nanning Cement at Goutoushan (狗頭山), the limestone quarries used by Guigang Cement at Dingxiangshan (定祥山) and the limestone quarries used by Fengkai Quarry at Dawangtang (大旺塘) and Shuangfeng (雙峰) are State-owned land and that, at the moment, we are not required to undergo formal land use right procedures in respect of our mining activities within those areas.

Other raw materials

Other raw materials that we use primarily include cement, clinker purchased from third parties, sand, aggregate, gypsum, clay and fly ash. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, in respect of our continuing operations, the costs of raw materials as a percentage of turnover was 28.4%, 28.0%, 25.5% and 23.5%, respectively.

Most of the cement and clinker used in our production is sourced within our Group. Our Directors believe that there is adequate supply of sand, aggregate, gypsum, limestone, fly ash, clay and other raw materials we use on the market and do not foresee any difficulty in obtaining such raw materials for our production requirements in the near future. Please see the sub-section headed “— Suppliers” in this section.

Energy Supply

Coal

Coal is primarily used as fuel in our clinker production. We obtain our supply of coal mainly from coal intermediaries in Vietnam, and in Guizhou, Hunan and Qinhuangdao, Hebei in China. Our Directors understand that these PRC intermediaries possess valid operation certificates for buying and selling coal. The purchase price is determined by reference to the prevailing market price. We usually enter into annual supply contracts with our coal suppliers and purchases of coal are generally made on a 30-day credit term. Coal is primarily delivered to our production facilities by means of water and road transportation.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we incurred costs of approximately HK\$404.6 million, HK\$687.2 million, HK\$1,655.5 million and HK\$690.6 million on coal, respectively, representing 19.2%, 18.4%, 28.6% and 25.2% of our turnover from continuing

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operations for the respective periods. We experienced significant increases in coal prices in 2007 and 2008 due to a surge in coal demand coupled with supply shortages in the market. However, we did not experience any coal shortages in our operations during the Track Record Period. The average purchase price of coal used in our production increased from HK\$424 per ton in 2006 to HK\$464 per ton in 2007, to HK\$769 per ton in 2008 but dropped to HK\$578 per ton in the first six months of 2009.

Electricity

We obtain our electricity supply from the Southern China Power Grid. Payment for electricity is made at the beginning of each month based on the estimated expenses for that month. We have not experienced any difficulty in obtaining adequate electricity during the Track Record Period and our Directors do not foresee any problem in obtaining electricity for our production facilities in the foreseeable future. We have also installed residual heat recovery generators with a total installed capacity of 75,000 kW at our clinker production facilities in Pingnan, Guigang, Binyang and Nanning. These residual heat recovery generators collect residual heat from the clinker production process to generate power that can be re-utilized.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total electricity costs were HK\$322.5 million, HK\$474.2 million, HK\$651.0 million and HK\$327.3 million, respectively and accounted for approximately 15.3%, 12.7%, 11.3% and 12.0% of our turnover from continuing operations for the respective periods. The decrease in our electricity cost as a percentage of our turnover was due to economies of scale arising from our increased total production. We did not experience any electricity shortages in our operations during the Track Record Period.

Suppliers

Our procurement department is responsible for the centralized procurement of raw materials such as coal, sand, aggregate, gypsum, clay and fly ash from independent third-party suppliers. Our procurement department will order the relevant raw materials according to our monthly production plans. We are required typically to make full payments for our raw materials within three months after delivery. Our payments are made by direct bank transfer, telegraphic transfer, cheque and bank draft.

The quality of the raw materials is then checked by our quality control department to ensure that the raw materials comply with our production requirements. In addition, our procurement department monitors the quality, the timing of delivery and the pricing of raw materials.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, purchases from our five largest suppliers accounted for approximately 26.8%, 30.0%, 46.5% and 39.7% of our total cost of sales, respectively. During the same periods, purchases from our largest supplier accounted for approximately 11.4%, 16.2%, 24.2% and 17.3% of our cost of sales, respectively. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we sourced HK\$146.7 million, HK\$213.3 million, HK\$340.2 million and HK\$231.0 million of cement within our Group, respectively, and we sourced HK\$855.9 million, HK\$1,314.8 million, HK\$2,556.2 million and HK\$1,208.9 million of clinker within our Group, respectively. During the same periods, we have purchased from third parties HK\$64.9 million, HK\$165.3 million, HK\$210.4 million and HK\$423.5 million of cement, respectively. For the years ended December 31, 2006, 2007 and 2008 we have purchased from third parties HK\$14.3 million, HK\$40.1 million and nil of clinker, respectively. We have maintained business relationships with our top five suppliers for up to five years, and we also have maintained long-term relationship with independent third-party suppliers for our raw materials during the Track Record Period.

As at the Latest Practicable Date, none of our Directors, their respective associates or any of the Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) had any interest in any of the top five suppliers of our Group.

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Sales and Marketing

Sales

Our core markets are Guangdong and Guangxi.

The following table sets out our sales volume and turnover from continuing operations by geographical location of our customers during the Track Record Period:

	Sales Volume ('000 tons/'000 m ³ (concrete))				Turnover ('000 HK\$)			
	For the year ended December 31,			For the six months ended June 30,	For the year ended December 31,			For the six months ended June 30,
	2006	2007	2008	2009	2006	2007	2008	2009
Guangdong								
Cement	3,689.3	5,492.3	7,510.9	3,593.1	747,371	1,403,670	2,141,756	894,101
Clinker	595.1	235.2	342.8	286.6	96,890	50,601	87,390	57,383
Concrete	1,791.5	3,178.3	3,283.4	1,182.9	393,727	749,497	918,965	315,371
Subtotal	6,075.9	8,905.8	11,137.1	5,062.6	1,237,988	2,203,768	3,148,111	1,266,855
Guangxi								
Cement	1,912.4	3,454.1	5,562.4	3,173.6	358,255	749,686	1,542,759	846,075
Clinker	660.4	920.5	899.7	741.7	109,548	177,799	210,518	146,127
Concrete	682.9	1,009.9	1,634.4	883.7	140,632	244,924	437,268	229,069
Subtotal	3,255.7	5,384.5	8,096.5	4,799.0	608,435	1,172,409	2,190,545	1,221,271
Fujian								
Cement	—	—	—	69.9	—	—	—	19,432
Concrete	—	0.7	143.8	166.4	—	141	40,775	41,449
Subtotal	—	0.7	143.8	236.3	—	141	40,775	60,881
Hong Kong								
Cement	13.9	89.0	132.9	61.5	4,854	27,565	51,281	25,169
Clinker	10.3	80.3	105.4	49.6	2,412	18,660	34,385	16,862
Concrete	477.3	518.9	490.5	223.5	258,006	320,612	316,181	147,701
Subtotal	501.5	688.2	728.8	334.6	265,272	366,837	401,847	189,732
Total	<u>9,833.1</u>	<u>14,979.2</u>	<u>20,106.2</u>	<u>10,432.5</u>	<u>2,111,695</u>	<u>3,743,155</u>	<u>5,781,278</u>	<u>2,738,739</u>

Most of our cement is sold under the “華潤” (Huarun) and “紅水河” (Hongshuihe) trademarks. Products sold under these trademarks are well recognized and are well known brands within the construction industry in China.

We sell a majority of our cement directly to end users through our extensive sales network and the remainder through distributors. We have 18 regional sales offices covering Dongguan (東莞), Jiangmen (江門), Foshan (佛山), Zhuhai (珠海), Zhongshan (中山), Zhaoqing (肇慶), Shantou (汕頭), Shanwei (汕尾), Chaozhou (潮州), Jieyang (揭陽), Zhanjiang (湛江), Maoming (茂名), Yangjiang (陽江), Huizhou (惠州), Guangzhou (廣州), Shenzhen (深圳) and Yunfu (雲浮) in Guangdong, and Guigang (貴港), Yulin (玉林), Wuzhou (梧州), Nanning (南寧), Laibin (來賓), Liuzhou (柳州), Qinzhou (欽州), Beihai (北海) and Fangchenggang (防城港) in Guangxi, Xiamen (廈門), Fuzhou (福州), Quanzhou (泉州) and Putian (莆田) in Fujian and Haikou (海口) in Hainan with some of our regional sales offices covering more than one city.

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The following table sets forth our regional sales offices and the cities covered by their regional sales offices.

Regional Sales Office	Cities Covered by the Regional Office
1. Shenzhen Office	Shenzhen (深圳)
2. Dongguan (North) Office	Northern Dongguan (北部東莞)
3. Dongguan (South) Office	Southern Dongguan (南部東莞)
4. Jiangmen Office	Jiangmen (江門)
5. Foshan Office	Foshan (佛山)
6. Guangzhou Office	Guangzhou (廣州)
7. Zhongshan Office	Zhongshan (中山)
8. Zhuhai Office	Zhuhai (珠海)
9. Zhaoqing Office	Zhaoqing (肇慶)
10. Guigang & Yulin Office	Guigang (貴港)
11. Wuzhou Office	Wuzhou (梧州), Yulin (玉林) and Yunfu (雲浮)
12. Hongshuihe Office	Haikou (海口), Liuzhou (柳州) and Laibin (來賓)
13. Nanning Office	Nanning (南寧)
14. Guangxi Coastal Office	Qinzhou (欽州), Beihai (北海) and Fangchenggang (防城港)
15. Eastern Guangdong Office	Shantou (汕頭), Shanwei (汕尾), Chaozhou (潮州) and Jieyang (揭陽)
16. Zhanjiang Office	Zhanjiang (湛江), Maoming (茂名) and Yangjiang (陽江)
17. Huizhou Office	Huizhou (惠州)
18. Fujian Office	Xiamen (廈門), Fuzhou (福州), Quanzhou (泉州) and Putian (莆田)

As we expand into new regions, we expect to increase our market coverage by establishing more sales offices. We intend to establish five additional sales offices to cover Shangsi (上思), Dongxing (東興), Tianyang (田陽), Wuxuan (武宣), Guilin (桂林), Fuchuan (富川) and Hezhou (賀州). All of our sales offices are centrally managed by our marketing department in Guangdong.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, in respect of our continuing operations, our turnover from our sales network was HK\$753.3 million, HK\$1,287.6 million, HK\$2,010.6 million and HK\$1,151.0 million, respectively, representing 67.8%, 59.0%, 53.8% and 64.5%, respectively, of our total cement sales for the same time periods. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we used 80, 123, 168 and 98 distributors, respectively, to sell our cement products. In respect of our continuing operations, our turnover from these distributors for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, was HK\$357.3 million, HK\$893.4 million, HK\$1,725.2 million and HK\$633.8 million, respectively, representing 32.2%, 41.0%, 46.2% and 35.5%, respectively, of our total cement sales for the same time periods. We treat our distributors as normal customers and do not employ selection criteria when dealing with them. We award different levels of volume discounts to our distributors, depending on the amount of cement purchased. We use standard sales contracts and do not employ distributorship agreements with our distributors.

Marketing

Our marketing department is responsible for collecting market information and coordinating marketing activities. We place a strong emphasis on maintaining close relationships with our customers. We achieve this by employing several strategies. First, our marketing department operates a customer service center that is responsible for handling complaints and addressing comments from our customers. These complaints and comments as well as competitor information are communicated by our marketing department to our production facilities, which enables us to further improve our product quality and production process. Second, we monitor market developments and consumer preferences through our sales staff's frequent visits to our customers. In

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addition, we send technicians to provide on-site training to our customers regarding the use and application of our products.

Customers

We have a broad and well established customer base in China. Our customers include property developers, government organizations and companies engaged in the construction of major highways, hydroelectric power plants and other infrastructure projects. PO42.5 or higher grade cement is mainly sold in bulk to concrete batching plants, cement products manufacturers, construction and infrastructure project companies. PC32.5 cement is mainly sold to distributors in bags. Our products have been 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), Guanghe Expressway (廣賀高速公路), Guiwu Expressway (桂梧高速公路), Guangwu Expressway (廣梧高速公路), Guangzhu Railway (廣珠城際軌道) and Wuguang Express Railway (武廣高速鐵路).

In respect of our continuing operations, for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, sales to our five largest customers accounted for approximately 10.2%, 10.0%, 8.9% and 9.3% of the total turnover, respectively. In respect of our continuing operations, for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, sales to our largest single customer accounted for approximately 3.1%, 2.5%, 3.4% and 2.7% of the total turnover, respectively.

As at the Latest Practicable Date, none of our Directors, their respective associates or any of the Shareholders (which to the knowledge of our Directors own more than 5% of the issued share capital of our Company) had any interests in any of the top five customers of our Group.

Pricing policy

Pricing of our products is mainly determined with reference to our sales volume, inventory levels, competitors' prices, logistics costs, credit terms and product type. These factors are assessed by our sales managers on a regular basis. When our sales managers consider that an adjustment to our prices is necessary, they will submit a request to our marketing department. Our marketing department will approve such request if it considers it appropriate after analyzing the above factors. According to customers' requirements, we either sell our products ex factory or arrange for delivery to the sites specified by the customers. Where transportation costs are included in the sales price, our sales department will assist customers in arranging for the transportation of our products to designated sites.

Payment terms

We sell most of our cement products directly to end users through our sales network and the remainder to distributors. We usually enter into a main contract with bulk purchase customers engaged in major construction projects. Key terms are fixed under a master contract. The products are then delivered according to the customers' actual demand. A monthly statement of account is delivered to these customers. Most of our sales are settled through prepayment by our customers in cash and the balance by way of credit. We have a policy of granting a credit period of 0 to 90 days from the issuance of invoices to our cement and concrete customers, depending on their credit history. At the beginning of 2008, we shortened the credit period to 0 to 30 days for cement customers and 0 to 60 days for concrete customers. We shortened these credit periods in order to improve our monthly cash flows and to reduce our risk, interest financing and bad debt expenses. Export sales to Hong Kong are normally prepaid or supported by letters of credit.

Competition

The cement and concrete industry in China is primarily a fragmented and regional industry. According to the China Cement Association, there were more than 600 above-scale cement producers in Southern China in 2008. Our major competitors include companies with a national presence such as Anhui Conch, as well as other cement producers companies with operations in China such as Taiwan Cement Holdings Limited

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(台灣水泥股份有限公司). We also compete with smaller scale regional producers in the markets where we operate. In particular, Taiwan Cement Holdings Limited increased their production capacity significantly in 2008 with the commencement of production of eight new cement production lines located at Yingde, Guangdong (four new production lines) and Guigang (four new production lines). Our Directors believe that under current market conditions, a cement producer’s success depends on whether it is able to maintain a stable supply of high quality products and its efficiency in managing production and transportation costs. The PRC Government has recently raised quality standards and in turn raised barriers of entry into the cement industry. For example, all newly constructed clinker production lines must now have sufficient limestone resources to support operations for at least 30 years, and all newly established cement grinding plants should now have a minimum annual production capacity of 0.6 million tons. One of the competitive fronts our Group is facing is the production capability expansion of other large cement producers in Southern China especially when they mainly target the same high-grade bulk cement as we do. The competition has been further intensified with the cross-expansion of such large cement producers and the entry of foreign cement companies. We believe one of the traits that distinguishes our Group from our major competitors is that we have our principal production facilities in close proximity to limestone quarries and waterway transportation channels (mainly the Xijiang River) and our sales network based on silo terminals covering Southern China. This enables us to have a secure and stable supply of limestone and to produce high quality and low-cost products with extensive sales through an efficient transportation network. As a result, we are still able to maintain a leading position in the market even in the face of production capability expansion of our competitors. We are the largest NSP cement and clinker producer in Southern China by production capacity according to China Cement Net and the second largest concrete producer in China by sales volume according to China Concrete Website.

In the past several years, the PRC Government has encouraged the development of large-scale cement production and the use of advanced NSP technology. As a result of these policies, smaller enterprises will be less viable and we expect that there will be significant consolidation activities within the PRC cement industry. Enterprises within the industry with advanced technologies, abundant and high-quality resources, access to a large customer base and reliable logistics services will likely lead to the consolidation of smaller and less advanced enterprises. We further believe that many small-scale cement companies using less advanced production technologies were forced to close down as a result. For further information on such regulation, please see the sections headed “Industry Overview — Key Industry Trends in China — NSP Technology Application” and “Regulatory Overview — The Cement Industry — Industry Policy” in this document. As a large-scale NSP cement producer, we have been able to benefit from favorable government policies on project approval, land use rights and financing. In 2008, we were among the top 10 NSP cement producers in China by production volume, according to the China Cement Association. We believe that the decrease in non-NSP cement production will create an opportunity for us to expand our customer base and increase market share. As a result of the trends in consolidation, we expect future competition in this industry will be among the top NSP cement producers.

Intellectual Property

Our cement products are principally sold under the trademarks of “華潤” (Huarun) and “紅水河” (Hongshuihe). The trademark of “紅水河” (Hongshuihe) is registered in the PRC by Hongshuihe Cement with the Trademarks Bureau (商標局) under the SAIC. The trademark of “華潤” (Huarun) is registered in the PRC by China Resources National Corporation. Our Company has obtained a non-exclusive license from China Resources National Corporation to use the trademark “華潤” (Huarun) and our Company further sub-licenses such trademark to its subsidiaries in the PRC so as to enable our Group to use such trademark in the sale and production of cement products in China. In addition, China Resources Holdings has granted us the right to use the logo  which is duly registered in Hong Kong.

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Quality Control

We impose stringent quality control standards for our production process from the purchase of raw materials to the delivery of finished products.

Each of our production facilities has a quality control department that is responsible for monitoring raw materials quality, our production process and product quality. Our main quality control procedures are as follows:

- *Raw materials quality.* Our quality control teams perform routine inspections and sample testing on raw materials such as limestone, clay, blast furnace slag, gypsum and coal before they are used in the production process to ensure that such materials comply with our required quality standards.
- *Production process.* Our quality control teams carry out intermediate quality control inspections on a sample basis at various stages of our production process in order to ensure that the production process is in order.
- *Product quality.* Our quality control teams perform routine inspection and sample testing on finished products to ensure that they comply with our required quality standards.

During the Track Record Period, we experienced no delays or defective product complaints that resulted in any material effect on our business.

Logistics

As at June 30, 2009, we had a number of storage facilities capable of storing in the aggregate approximately 1,198,000 tons of clinker and 657,340 tons of cement. The design of our storage capacity has taken into consideration the turnover rate and transportation time. Raw materials such as gypsum and coal are sourced from independent suppliers, which normally require less than a week for transportation.

We have silo terminals in the Pearl River Delta and the coastal regions in Guangdong, Guangxi and Fujian. We are planning to strengthen our distribution network by constructing and/or acquiring more silo terminals situated along the Xijiang River and/or in coastal cities in Southern China.

Most of our production facilities are strategically located near the Xijiang River or the coast of the South China Sea which enables us to transport our products primarily by river or sea. Our clinker production facilities are also located near our limestone quarries, which supply most of the limestone that we require for the production of clinker. We have silo terminals near waterways and railways for storing cement and clinker. All these arrangements and facilities help to enhance our logistics efficiency.

Our concrete batching plants currently in operation are located along our distribution channels in order to take advantage of our transportation network. As concrete usually needs to be delivered to construction sites for use within two hours of production, we built our concrete batching plants at strategic locations with convenient access to an efficient transportation system so that deliveries can be scheduled in time for the concrete to be used upon arrival at sites. As at June 30, 2009, we had more than 450 concrete mixer trucks.

Repair and Maintenance

Regular repair and maintenance programmes for our plants' equipment are scheduled by our production departments and carried out by our machinery and electrical repair teams to maximize production efficiency and

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avoid unexpected interruption of our operations. The duration of scheduled annual maintenance is usually two weeks. Our machinery and electrical repair teams carry out day-to-day maintenance and repair of the facilities and machinery. Normally, maintenance is only carried out on one production line at each plant at a time to ensure the continuity of our production.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, we incurred approximately HK\$27.7 million, HK\$59.2 million, HK\$110.6 million and HK\$56.1 million in repair and maintenance expenses, respectively. There have not been any major disruptions caused by equipment failure during the Track Record Period.

Safety Procedures

Each of our plants has a safety officer who is responsible for regulating and coordinating safety procedures at the plant with assistance from the supervisors of different production units. The majority of our plant safety officers have passed a safety assessment administered by the local labor and social security bureau and have obtained relevant qualification certificates. We expect the remainder of our plant safety officers, who are staffed at our newly opened plants, to undergo the safety assessment and qualification process as soon as practicable. The supervisor at each production unit is responsible for ensuring compliance with all safety regulations and procedures. New employees are also trained to comply with the relevant safety procedures prior to being assigned to their respective job duties. All of our subsidiaries have implemented a comprehensive system of safety management procedures and regulations. The Operation Department of each plant has a designated safety officer (專職安全員) to monitor the implementation and compliance of our safety protection systems and measures. All plant managers have signed a Safety Production Undertaking (安全生產責任書) with us. Some of our PRC subsidiaries have already been accredited with the OHSAS18000 (職業安全認證) and the OHSAS18000 accreditation process for our remaining subsidiaries is ongoing. We aim to have all our subsidiaries become OHSAS18000 accredited as soon as practicable. Our PRC counsel confirms that OHSAS18000 accreditation is currently not mandatory in China and is conducted on a voluntary basis, as stated in the Notice of the State Economic and Trade Commission Concerning Conduction of Verification Work on Occupational Safety and Health Management System (Guo Jing Mao An Quan [1999] No. 983) 國家經濟貿易委員會關於開展職業安全衛生管理體系認證工作的通知 (國經貿安全[1999]983號). Generally, OHSAS18000 accreditation occurs two to three years after a plant commences operations. Our PRC counsel has also confirmed that we have materially complied with the relevant operation safety laws, regulations and administrative rules and that we have not been subject to any material sanctions or penalties imposed by the relevant regulatory authorities in China. We did not experience any major accidents or casualties at our production facilities during the Track Record Period.

Insurance

We maintain insurance to cover potential damage to our properties and equipment, and for public liability and employee compensation. The coverage of the insurance in respect of our facilities and equipment includes various risks relating to industrial accidents and certain types of natural disasters. We believe that our current insurance coverage is adequate to cover the replacement costs of the facilities and equipment concerned.

We have not taken out any insurance policies to cover product liability. Since the commencement of our operations and until the Latest Practicable Date, we have not been subject to any material product liability claims. To control our product liability risk, we place significant emphasis on quality control. Since the commencement of our operations and until the Latest Practicable Date, we have not experienced any serious or material industrial accidents at our production facilities.

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Employees

As at June 30, 2009, we employed a total of 8,928 full time employees. A breakdown of our employees by function is shown below:

Management	151
Finance and administration	1,257
Production/technical	6,263
Quality control	1,050
Sales and marketing	207
Total	<u>8,928</u>

Remuneration of our employees includes basic wages, production unit allowance, bonuses and other staff benefits. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total labor costs were approximately HK\$209.3 million, HK\$330.8 million, HK\$374.2 million and HK\$234.0 million, respectively.

Under PRC law, we are required to make contributions to pension funds, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing funds and other staff welfare for our employees. Please see section headed “Directors, Senior Management and Employees — Compensation of Employees” for more details on our housing funds.

Property

As at the Latest Practicable Date, we own 53 parcels of land with an aggregate area of approximately 9,242,799 square meters and 432 buildings and units with an aggregate gross floor area of approximately 456,588 square meters. DTZ Debenham Tie Leung Limited, an independent valuer, has valued our owned attributable property interests as at June 30, 2009 at RMB1,084,255,640. Details of the valuation are set out in Appendix V — “Property Valuation” to this document.

As at the Latest Practicable Date, we have obtained the relevant long-term land use right certificates in respect of 40 parcels of land with an aggregate area of approximately 8,288,173 square meters, which represents approximately 89.7% of our owned land in terms of area. We have also obtained the relevant long-term building ownership certificates in respect of 367 buildings and units with an aggregate gross floor area of 393,947 square meters, which represents approximately 87.3% of our owned building units in terms of area. We have not yet obtained the land use right certificates for 13 parcels of land with an aggregate of approximately 954,626 square meters and the building ownership certificates for 65 buildings and units with a gross floor area of approximately 62,641 square meters, some of which are located on the aforementioned 13 parcels of land. These comprise:

- (i) 12 parcels of land with an aggregate area of 927,076 square meters which are used for industrial and ancillary purposes;
- (ii) 1 parcel of land with an area of 27,550 square meters which is used for residential purposes; and
- (iii) 65 buildings and units with a gross floor area of approximately 62,641 square meters which are used for operation and ancillary purposes, including transformer rooms, electric power rooms, water pump stations, offices, canteens, staff quarters and storage rooms.

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The 13 parcels of land without land use right certificates account for only approximately 10.3% of our owned land in terms of area. The status of the 13 parcels of land without land use right certificates are as follows:

- (i) we are in the process of applying for the land use right certificates in respect of two parcels of land with a total area of approximately 57,399 square meters and expect to obtain them by the first quarter of 2010;
- (ii) we have paid part of the land grant fees and are taking steps to acquire the land grant in respect of five parcels of land with a total area of approximately 445,181 square meters and expect to complete the acquisition by the first quarter of 2010. Our PRC counsel, Concord & Partners, is of the opinion that, upon signing of the land grant contracts and payment of the relevant land grant fees, there would not be any legal impediment for us to obtain the relevant land use right certificates; and
- (iii) in respect of the remaining six parcels of land with a total area of approximately 780,511 square meters, we have not determined a specific timetable for obtaining the relevant land use right certificates. As four parcels of the land are occupied by storage facilities, water pumping facilities and a conveyor belt for the transportation of minerals extracted by us, one parcel of land is for future production facilities and the remaining parcel of land for residential purposes, our Directors believe that the absence of land use right certificates in respect of these parcels of land do not have any material adverse impact on the operations and financial position of our Group.

The 65 buildings and units without building ownership certificates account for approximately 13.5% of our buildings in terms of gross floor area. As at the Latest Practicable Date, we have not been able to obtain the building ownership certificates in respect of the 65 buildings and units. While we do not have a specific timeframe for obtaining the building ownership certificates in respect of such buildings and units, the status of the 65 buildings and units without building ownership certificates are as follows:

- (i) we are applying for the building ownership certificates in respect of nine buildings with a total gross floor area of approximately 27,431 square meters which are located on a parcel of land for which our Group has obtained the land use right certificate; and
- (ii) we will apply for the building ownership certificates in respect of the other 56 buildings and units after it has obtained the land use right certificates in respect of the land on which such buildings and units are located. We expect to obtain the relevant land use right certificates or complete the acquisition of such land by the first quarter of 2010 and will begin to apply for the building ownership certificates thereafter.

Our PRC counsel, Concord & Partners, confirmed that, after we have obtained the land use right certificates for the land on which such buildings are located, there should be no legal impediment in obtaining the relevant building ownership certificates. As at June 30, 2009, the net book value of the properties without title certificates amounted to RMB183.4 million, which accounts for approximately 13.5% of the net book value of our owned properties. Accordingly, these owned properties without title certificates only constituted a relatively small portion of our owned properties, our Directors believe that there are no material financial and operational impact on our Group arising from the absence of title certificates for these owned properties.

We lease 18 parcels of land with an aggregate area of 2,894,390 square meters and 23 buildings with an aggregate gross floor area of 7,756.8 square meters. Of the 18 parcels of leased land, 12 parcels are collective land. We have not been able to obtain from the lessors complete title documents in respect of seven leased buildings with a total gross floor area of approximately 2,815 square meters, representing approximately 0.6% of the total gross floor area of the owned and leased buildings occupied by our Group and 11 parcels of leased collective land with a total area of approximately 2,800,400 square meters (in respect of one such parcel of land,

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the lessor has provided complete title documents), representing approximately 24.1% of total area of the owned and leased land occupied by our Group. Our PRC counsel has advised that the lessors did not provide the relevant land use right certificates for 11 parcels of leased collective land as there are no definitive laws or regulations which require the lessors to provide land use right certificates for temporary use of collective land. In addition, we have not obtained the relevant governmental approval in respect of the short term leases for seven parcels of collective land with an area of approximately 105,948 square meters occupied by our batching plants, representing approximately 0.9% of the total area of the owned and leased land occupied by our Group. For the seven leased buildings, our Directors understand that the lessors did not obtain the relevant building ownership certificates because they were not able to satisfy the conditions for obtaining such certificates. Our PRC counsel has advised that, because of the potential lack of title of the lessors over these leased buildings, our right to use these leased buildings as a lessee is subject to uncertainty. These leased buildings are used as offices and as such, our Directors believe that they can be relocated if necessary without causing any material adverse impact on our business, results of operations or financial condition. For the seven parcels of leased collective land, the local land bureau indicated that it will not issue the relevant approval. Our PRC counsel has advised that the leasing agreements in respect of the seven parcels of leased collective land are not legally binding on or enforceable between the parties. For the other five parcels of leased collective land for which we have obtained the relevant government approval, our PRC counsel has advised that the relevant leasing agreements are legally binding and enforceable between the parties.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the turnover resulting from the production facilities located on such leased buildings and parcels of land accounted for approximately 19.1%, 16.0%, 11.6% and 8.5% of our Group’s turnover from continuing operations, respectively, and the profit resulting from such production facilities accounted for approximately 45.4%, 8.4%, 2.3% and 3.6% of our Group’s net profit, respectively. Our Directors believe that any outstanding title documents in relation to these leased properties would not have a material adverse impact on our business, results of operations or financial condition. A majority of our leased properties are occupied by our concrete batching plants. As ready mixed concrete must be delivered to customers’ construction sites within a short period of time (usually within two hours), our concrete batching plants need to be located close to the end users (usually within approximately 25 kilometers) and therefore may be relocated from time to time, depending on market demand. If the surrounding markets have been saturated and new projects have been developed elsewhere, we will consider relocating our concrete batching plants to fulfill the concrete demand in the markets with new projects. Due to the nature of the concrete business, we believe it is not crucial for our concrete batching plants to be located on land subject to long term leasing arrangements or long term land use rights. Most of our concrete batching plants are therefore under short term leasing arrangements for a maximum period of two years. Details of the leasing period of our concrete batching plants are as follows:

<u>Relevant leasing subsidiary</u>	<u>Leasing Period</u>
China Resources Concrete (Nanning) Limited	January 1, 2009 – January 1, 2010
China Resources Concrete (Nanning Xixiangtang) Limited	January 1, 2009 – January 1, 2010
China Resources Dongguan Concrete Company Limited	July 1, 2009 – June 30, 2011
China Resources Concrete (Jiangmen) Limited	July 1, 2008 – June 30, 2010
China Resources Concrete (Jiangmen Tangxia) Limited	July 1, 2009 – June 30, 2010
China Resources Concrete (Foshan) Company Limited	July 1, 2008 – June 30, 2010
Foshan China Resources Shunan Concrete Limited	July 1, 2009 – June 30, 2011
China Resources Concrete (Shenzhen) Company Limited	July 1, 2009 – December 31, 2009
China Resources Concrete (Fuzhou Development Zone) Limited	July 1, 2008 – December 31, 2009
China Resources Concrete (Dongguan Fengcheng) Limited	July 1, 2008 – August 31, 2026
	July 1, 2008 – November 30, 2027
Heyuan China Resources Pengyuan Concrete Limited	July 1, 2009 – June 30, 2010
China Resources Concrete (Zhanjiang) Limited	February 18, 2009 – February 17, 2010

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We currently do not have a relocation schedule for our concrete batching plants. In determining whether we should relocate a particular concrete batching plant, factors considered by us include (i) whether the PRC Government has requested us to vacate the premises due to absence or incompleteness of title certificates; (ii) whether the surrounding markets have saturated, resulting in a decrease in the plant’s sales and profits; and (iii) whether we are able to renew the relevant leasing agreement upon expiry of its term. Where the PRC Government requires an occupier to vacate a property with defective title, we understand it normally gives the occupier a certain period of time to do so. Our Directors believe that in such an event, we would have sufficient time to plan our relocation such that there will be minimum disruption to our business. In addition, in order to minimize relocation costs, we have designed our concrete batching plants in a way such that they can be dismantled and re-assembled. If we are unable to obtain a renewal of the relevant leasing agreement, we will relocate our concrete batching plants upon expiry of the term. We expect the time for finding suitable alternative site and relocating each concrete batching plant is approximately four to five months. The costs for relocating our concrete batching plants are expected to approximately RMB1.5 million to RMB1.8 million per plant and are approximately RMB19.5 million to RMB23.4 million for all our operating concrete plants.

Environmental Compliance and Pollution Controls

The cement industry is categorized by the PRC Government as a polluting industry. Accordingly, we are subject to a variety of governmental laws and regulations related to environmental protection. There are national and local standards applicable to land rehabilitation, reforestation, emission control, discharge to surface and subsurface water and the generation, handling, storage, transportation, treatment and disposal of waste materials. In addition, we are subject to various state, provincial and municipal environmental laws, regulations and administrative rules. For further information regarding environmental laws and regulations, please see the section headed “Regulatory Overview — Environmental Protection” in this document.

According to the Environmental Protection Law (《中華人民共和國環境保護法》) and other relevant laws and regulations, companies that discharge contaminants must report and register with the MEP or the relevant local environmental protection authorities. Companies discharging contaminants in excess of the discharge limits prescribed by the central or local authorities must pay discharge fees for the excess in accordance with applicable regulations, and are also responsible for the treatment of the excess discharge. Government authorities can impose different penalties on individuals or companies in violation of the Environmental Protection Law (《中華人民共和國環境保護法》), depending on the individual circumstances of each case and the extent of contamination. Such penalties include warnings, fines, impositions of deadlines for remedying the contamination, orders to stop production or use, orders to re-install contamination prevention and treatment facilities which have been removed without permission or left unused, administration actions against relevant responsible persons or companies, or orders to close down those enterprises. Where the violation is serious, the persons or companies responsible for the violation may be required to pay damages to victims of the contamination. Where serious environmental contamination occurs in violation of the provisions of the Environmental Protection Law (《中華人民共和國環境保護法》) which results in serious loss of public and private property, persons or enterprises directly responsible for such contamination may be held criminally liable.

When raw materials are processed through a kiln, they emit various greenhouse gases such as carbon monoxide, nitrogen dioxide and sulphur dioxide. Cement production also produces noise, waste water and industrial waste. Prior to the [●], we will have adopted the following specific measures pursuant to the characteristics of the cement and concrete production businesses and the different sources of pollution in order to comply with the relevant environmental protection laws and regulations:

Cement Production

Waste water. In our factory areas, we separate water and sewage and rain and sewage for our drainage system. Clean water in the cooling equipment is recycled through pipes, while sewage and rain are recycled upon

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treatment after flowing back to the factory through open ditches. With a recycling rate of over 95%, very little waste water is discharged into the environment.

Dust. All waste gas and smoke containing dust generated from our production lines and procedures are disposed of by electric and bag type dust collectors, both of which are highly efficient and reliable for dust collection. Kiln heads and kiln rears are equipped with electric dust collectors and relevant auxiliary equipment, respectively. All raw materials and fuel in our factory areas are hermetically transmitted through conveyor belts. Storerooms of raw materials and fuel are either closed-ended or hermetic type storerooms built in a cylindrical or rectangular shape. Special vehicles in our factory areas spray water on the raw material storage fields and factory roads on which the fuel and raw materials are transported in order to reduce dust during dry seasons.

Noise. Our raw materials grinding system uses a vertical roll grinding system, which is energy efficient and has a low noise level. Mufflers are installed on the air inlets of root blowers, the air aspiration port of air compressors and discharge ports of various blowers. We have adopted sound dampening measures including shock absorption and sealing enclosure protection on large equipment foundation such as raw mills, coal mills, cement mills and crushers. In respect of ore blasting, we make use of the technology and measures such as charge control, deep-hole differential, zoning blasting and sectional blasting to control the blasting charge, blasting period and frequency and to strictly control blasting noise and vibration. In addition, we take advantage of buildings and green belts to insulate and absorb noise to prevent the spread of noise.

Comprehensive use of solid waste. We recycle dust generated by cement production processes, rather than discharging it into the environment. We burn household waste into the dry process kilns. When we replace broken bricks at the time of the inspection and maintenance of rotary kilns, we recycle the bricks together with raw materials for use in our cement production process.

Others. All of our cement production lines are equipped with low-temperature residual heat power generators. When generating power from the residual heat, the emission of dust, carbon dioxide, smoke and other substances is reduced to create energy savings and environmental protection. Our residual heat power generators reduce emissions of greenhouse gases such as carbon monoxide, nitrogen dioxide and sulphur dioxide by an annual reduction rate of 50,000 tons per production line. Residual heat power generators also reduce overall power consumption from regional power grids that may use fossil fuels to generate power. We have used de-sulfur gypsum from the de-sulfur emission process of coal-burning power plants to replace natural gypsum in our cement production process. Prior to [●] we will have installed an online environmental-protection detection system to effectively supervise the discharge of pollutants. Environmental protection equipment represents approximately 8% of our total equipment cost in our cement production plan. The energy consumption to run environmental protection equipment is approximately 2Kwh per ton of clinker.

Concrete Production

Waste water. Slurry water generated when cleaning the mixers and mixing trucks is separated into sandstone and waste water through a sandstone separator. The sandstone and waste water are recycled for production. Such measures have been implemented in some batching plants and are ready to be implemented in other plants.

Dust. We have adopted the closed-ended mixing station design. We have also adopted a closed-ended feeding funnel and a closed-ended conveyor belt system to deliver production aggregates and use the compression air to blow the production powder into powder tanks. In each powder tank, the most advanced air-filter dust collector, equipped with a filter core (with functions of automatic reverse blowing and explosion proof), has been installed. We have set a speed limit for vehicles driving within the area occupied by us to a maximum speed of 10km/h. Dedicated staff are responsible for spraying water on our roads to ensure that dust is minimized.

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Noise. We have adopted fully closed-ended production lines to reduce noise. When installing the main mixer, we add a rubber shock absorption system to further reduce noise. In addition, we purchase equipment such as forklifts which are in compliance with national standards for noise reduction.

To formulate and implement the abovementioned measures, all of our cement companies have established environmental protection departments and retained full-time environmental protection administrators. Such persons are responsible for matters relating to the environmental protection management under the leadership of the deputy general manager of production, who represents the environmental protection administrators. Various production departments, auxiliary departments and workshop sections are equipped with part-time environmental protection administrators. Employees with over five years of experience manage the batching plants in our concrete companies. Specific inspection and management are also conducted for the relevant equipment and measures to ensure the implementation and ongoing compliance of environmental protection measures.

Our PRC counsel, Concord & Partners, has confirmed that we have materially complied with the relevant environmental laws, regulations and administrative rules. During the Track Record Period, we have not been subject to any material sanctions or penalties imposed by environmental regulatory authorities in China. For international environmental matters, our PRC counsel has informed us that China is classified as a developing country under the Kyoto Protocol. Developing countries are under no obligation to reduce emissions under the Kyoto Protocol. Our PRC counsel also informed us that China is also classified as a developing country under the Montreal Protocol, and is allowed specific delays in compliance under Article 5 of the Montreal Protocol.

Government Incentives

We were granted the following incentive subsidies by the PRC Government:

- (a) environmental protection subsidies granted to Hongshuihe Cement and Pingnan Cement as development funds to establish environmental friendly manufacturing factories by making use of residual heat power, which is produced during the process of the manufacture of cement. These subsidies were granted to Hongshuihe Cement and Pingnan Cement by the Economic Committee of Guangxi Autonomous Region (廣西自治區經濟委員會) pursuant to the Notice of the NDRC's Investment Plans for the Fourth Batch of State Government Budgeted Specific Funds (National Debt) in 2006 for Energy Saving and Environmental Protection Projects (Gui Jin Zi Yuan (2006) No. 283) (《轉發國家發展改革委員會關於下達2006年第四批資源節約和環境保護專案中央預算內專項資金(國債)投資計畫的通知》(桂經資源[2006]283號)) and Notice of NDRC's Investment Plans for the Fifth Batch of State Government Budgeted Specific Funds in 2007 for Energy Saving and Environmental Protection Projects (Gui Jing Zi Yuan (2007) No. 489) (《轉發國家發展改革委員會關於下達2007年第五批資源節約和環境保護專案中央預算內投資計畫的通知》(桂經資源[2007]489號)) issued by the Economic Committee of Guangxi Autonomous Region (廣西自治區經濟委員會) in 2006 and 2007 respectively;
- (b) business encouragement subsidies granted to Pingnan Cement, Guigang Cement and Hongshuihe Cement to encourage the establishment of cement manufacturing business in the Guangxi Autonomous Region by the Pingnan County Government, the Government of Qintang District, Guigang City and the Binyang County People's Government, respectively. These include incentives granted pursuant to the Notice of Issues relating to Certain Comprehensive Utilisation of Resources and Value Added Tax for Other Products (Cai Shui (2001) No. 198) (《財政部、國家稅務總局關於部分資源綜合利用及其他產品增值稅政策問題的通知》(財稅[2001]198號)) issued by the Ministry of Finance and the State Administration of Taxation, the Notice of Adjustment of Applicable Resources Tax for Limestone, Marble and Granite (Cai Shui (2003) No. 119) (《財政部、國家稅務總局關於調整石灰石、大理石和花崗石資源稅適用稅額的通知》(財稅[2003]119號)) issued by the Ministry of Finance and the State Administration of Taxation, and

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the Notice of Issue relating to the First Group of the Autonomous Region's Potential Corporate Capital and Technology Reform Measures in 2006's (Gui Investment (2006) No. 206) (《關於下達自治區2006年第一批企業挖潛改造資金技術措施專案計畫的通知》 (桂經投資[2006]206號)) issued by the Economic Committee of Guangxi Autonomous Region on May 26, 2006; and

- (c) advanced technology and other incentives granted to Pingnan Cement and Hongshuihe Cement by the PRC Government mainly for technological improvements.

For details of the government incentives, please refer to note 49 of the Accountants' Report of the Company in Appendix I to this document.

Litigation

Our PRC subsidiaries are currently involved in 26 active legal proceedings. Among these, 22 have been filed by our PRC subsidiaries as plaintiffs for payments in arrears owed by customers. The remaining four legal proceedings are summarized below. We have made provisions in relation to these four legal proceedings in the amount of HK\$12 million.

In April 2007, CRC Investments was involved in a business commission dispute for a brokerage contract in the amount of approximately RMB1.9 million. Shenzhen Luohu District Court handed down its civil judgment on October 12, 2007, ordering CRC Investments to pay the plaintiffs the liquidate damages and the unpaid business commission. Our PRC counsel is of the opinion that the plaintiffs' claims against CRC Investments are justified to a certain extent, but the parties are in dispute as to the amount of the commission in arrears which will be subject to the court's decision at the second instance. CRC Investments has lodged an appeal against this decision on the ground that the court of first instance's ruling is inconsistent with the facts and that the evidence provided by the plaintiffs should not be admissible according to the requirements of the Civil Procedure Laws in the PRC. The case is currently undergoing a hearing at second instance. Upon perusing the relevant cooperation agreement and considering the requirements of the Civil Procedure Laws in the PRC, our PRC counsel is of the opinion that the appeal lodged by CRC Investments is justified. Concord & Partners confirmed that as the appeal proceeding has commenced, the plaintiff cannot enforce the judgment awarded by the court of first instance against the defendant.

In August 2006, a dispute arose concerning a collapsed dock in the Fuzhou Development Zone with China Resources Cement (Fuzhou) Limited (formerly known as Fuzhou Development Zone Shun Li Building Materials Company Limited) ("Shun Li"). Shun Li has attributed this accident to illegal sand mining activities conducted in water areas around the dock. The claim by Shun Li is against six individuals and one shipment association, namely, Lin Shidi (林拾佛), Lin Bingguang (林炳光), Yang Zhenxing (楊振興), Chen Keju (陳客聚), Chen Yuxin (陳玉新), Zheng Siming (鄭思銘) and Changle Yingqian Shipping Association (長樂營前航運協會). Shun Li is claiming economic loss of RMB23,072,000 and litigation costs. The case is still currently pending trial at the first intermediate court. Our PRC counsel is of the opinion that Shun Li's claim against the defendant is justified with legal basis.

In January 2007, employees of China Resources Concrete (Beihai) Limited were involved in a traffic accident. The plaintiff has filed an action with Nanning Xingning District Court against China Resources Concrete (Beihai) Limited and claimed for compensation, litigation costs and pain and suffering. Our PRC counsel is of the opinion that the plaintiffs' claims against China Resources Concrete (Beihai) Limited are justified to a certain extent and the court has adjudged that China Resources Concrete (Beihai) Limited shall indemnify the plaintiffs in an aggregate amount of RMB80,278 for the funeral expenses, death compensation, loss of income and psychological damages. The adjudicated amount was less than the plaintiffs' claimed amount. China Resources Concrete (Beihai) Limited has accepted the judgment and confirms that it is ready to pay the said damages to the plaintiffs. As the other defendants are appealing against the decision by the court of first instance, China Resources Concrete (Beihai) Limited will pay the damages after the court has adjudged the case.

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In May 2007, Hongshuihe Cement became involved in an equipment transfer dispute with a Mr. Li Hanwei. Hongshuihe Cement claimed against the defendant for equipment purchase price of RMB14,650,000, agreed liquidated damages of RMB1,747,200, confiscation of down payment of RMB3,000,000 and litigation costs. Mr. Li has been ordered by the Nanning Intermediate Court (南寧中階民法院) to pay Hongshuihe Cement the unpaid purchase price of the equipment of RMB11,560,000 and the agreed liquidated damages, to remove such equipment, to surrender his down payment, and to pay Hongshuihe Cement’s litigation costs of RMB142,643. Our PRC counsel is of the opinion that Hongshuihe Cement’s claim against the defendant is justified and is supported by the court’s civil judgment in favor of Hongshuihe Cement. To ensure that the judgment is properly executed, Hongshuihe Cement applied for enforcement of the judgment on July 22, 2008 due to Mr. Li’s non-compliance. The court has seized from the defendant a private vehicle, cash of RMB145,000 and old equipment stored with Hongshuihe Cement. Hongshuihe Cement is currently waiting for the court to undertake the next step in the distraint proceedings.

As at the Latest Practicable Date, no member of our Group was involved in any litigation, arbitration or administrative proceedings pending or threatened against us or any of our Directors that could have a material adverse effect on our business, results of operations or financial condition.

RELATIONSHIP WITH CHINA RESOURCES HOLDINGS

Overview

China Resources Holdings is a major PRC state-owned conglomerate based in Hong Kong, with its members engaging in a wide variety of businesses including retail, food and beverages, medicine, textiles, chemical products, real estate development, infrastructure, energy and semiconductors. Five of its members, namely, China Resources Enterprise, Limited (stock code 291), China Resources Power Holdings Company Limited (stock code 836), China Resources Land Limited (stock code 1109), China Resources Gas Group Limited (stock code 1193), and China Resources Microelectronics Limited (stock code 597) are listed on the Hong Kong Stock Exchange.

The table below sets forth the business scope of China Resources Holdings' listed subsidiaries and its shareholding interest in each of these companies:

Name	Business Scope	Shareholding Interest of CRH as at June 30, 2009
China Resources Enterprise, Limited	Retail, beverage, food processing and distribution, textile and property investment business	51.59%
China Resources Power Holdings Company Limited	Investment, development, operation and management of power plants	64.81%
China Resources Land Limited	Property investment, development and management	63.16%
China Resources Gas Group Limited	Distribution of natural gas and petroleum gas, operation of compressed natural gas filling stations and distribution of bottled liquefied petroleum gas	74.94%
China Resources Microelectronics Limited	Management, development and operation of semiconductor business	60.65%

Pursuant to the Reorganization, China Resources Holdings transferred to us substantially all of its cement and concrete operations, except for a 100.0% equity interest in Redland Precast.

Redland Precast

Redland Precast is principally engaged in the production and sale of precast concrete products in Hong Kong and Macau. Redland Precast produces precast products for a wide range of building structures such as viaduct segments, bridge decks, roof decks, parapets, retaining structures, precast and prestressed railway sleepers, low vibration transmission blocks and floating slab tracks for railways, cable troughs, precast building structures such as beams, columns and floor slabs, prestressed double tee beams, culverts, tunnel linings, curbs, external wall slabs and stairs. In addition, Redland Precast produces architectural products such as façade units, decorative elements, landscape and street furniture. It has one operating plant in Dongguan.

Redland Precast supplies its precast concrete products directly to end users. Its customers include the Government of Hong Kong, quasi government organizations, property developers and construction contractors. Our Directors understand that there is no common customer between our Group and Redland Precast. Although alternative sources are available, Redland Precast currently sources all of the cement used in its production from Dongguan Cement because of the high quality of its products and stable supply.

The management of Redland Precast is independent of the management of our Company.

Please see note 43 of the Accountants' Report of the Company set forth in Appendix I to this document for financial information on Redland Precast.

RELATIONSHIP WITH CHINA RESOURCES HOLDINGS

Our Directors believe that there is unlikely to be competition between our Group and Redland Precast for the following reasons:

- The product mix of Redland Precast is different from those of our Group.

Redland Precast primarily supplies precast concrete products to customers in Hong Kong and Macau, while we focus on sales of ready mixed concrete to customers in Hong Kong and Macau, as well as Southern China.

- Redland Precast produces precast concrete products, which are different from the ready mixed concrete that we produce.

Redland Precast produces precast concrete units which are manufactured in custom made moulds and in a controlled environment. Production of precast concrete units requires relatively long period of time for production design, production and delivery. Ready mixed concrete produced by us, on the other hand, is mixed in batching plants and then transported to the construction sites by mixer trucks in semi-liquid form within a short delivery time of no longer than two hours. It is then blended with other materials to be ready for use in construction. Redland Precast and our Group have different groups of customers as precast concrete units produced by Redland Precast are for use in projects which require building units with high degree of regularity and repetition in their structural form and shape, whereas ready mixed concrete produced by us is in the form of a semi-fluid mixture and is used for the construction of structures such as roads, bridges and buildings.

The table below sets out the business scope of the subsidiaries of Redland Precast:

Name	Business scope
Dongguan Redland Precast Concrete Products Limited	Manufacture and sale of precast products
Redland Concrete (China) Limited	Holding of barge
Redland-GRC Joint Venture Limited	Inactive
Redland Precast Concrete Products (Macau) Limited	Manufacture and sale of precast concrete products
Redland Precast Concrete Products Limited	Manufacture and sale of precast concrete products
Redland Precast Concrete Products Pte Limited	Inactive
Redland Quarries Limited	Holding of tug boat
Sinoking Logistics Limited	Holding of barge
Sinoking Shipping Limited	Holding of barge

Redland Concrete

Pursuant to the group reorganization in preparation for our listing in 2003, China Resources Enterprise, Limited transferred the entire issued share capital of the holding company of Redland Concrete to our Company. Upon completion of the transfer, Redland Concrete became a wholly-owned subsidiary of our Company. The geographical market of Redland Concrete’s business is Hong Kong. Since our Company’s previous listing in 2003, our Group has developed and expanded its cement and concrete business, which was focused on Southern China given the business opportunities presented by that region. In early 2008, we disposed of our interest in Redland Concrete to CR Gas. The disposal was driven by our intention to focus our resources and efforts on our business and operations in Southern China given the growth trend of our Group and in light of the growth potential available to our Group in that region.

In October 2008, the CR Gas Group expanded its business activities into the distribution of gas in a number of cities in China. Its gas distribution contributes the substantial proportion of the CR Gas Group’s

RELATIONSHIP WITH CHINA RESOURCES HOLDINGS

business activities in terms of both turnover and gross assets employed. The CR Gas Group decided to dispose of the Redland Concrete Group and, as we understand, direct greater resources toward its gas distribution business. On December 1, 2008, CR Gas and China Resources Holdings entered into a conditional sale and purchase agreement pursuant to which China Resources Holdings agreed that it or any of its subsidiaries nominated by it will acquire from CR Gas the entire issued share capital of Rich Team, the holding company of Redland Concrete, together with a shareholder's loan due to CR Gas with a face value of approximately HK\$217.7 million, for a cash consideration equal to the face value of such loan plus the unaudited consolidated net asset value of Rich Team as at October 31, 2008 aggregated to approximately HK\$293.8 million. The consideration was adjusted to approximately HK\$304.7 million based on any profit or loss after taxation attributable to its shareholders between November 1, 2008 and December 31, 2008, the date of completion. We acquired from CR Gas the entire issued share capital of Rich Team Resources Limited on December 31, 2008 as nominated by China Resources Holdings. On December 31, 2008, we re-acquired the Redland Concrete Group from CR Gas.

In 2008, the Hong Kong Government announced its plans to invest in various major infrastructure projects in the next few years, including the Hong Kong section of the Guangzhou-Shenzhen Hong Kong Express Rail Link transport infrastructure project (construction of which is expected to start by the end of 2009), the West Kowloon Cultural District strategic project (construction of which is expected to start in 2011) and the construction of the Hong Kong-Zhuhai-Macao Bridge (construction of which is expected to start by the end of 2009). Accordingly, we believe that the long term outlook for the Hong Kong construction industry is promising and that the concrete business of the Redland Concrete Group has significant growth potential. Further, historical financial results show that the Redland Concrete Group has been a profitable company and is expected to contribute to the overall profitability of our Group. Although it remains our strategy to focus on our cement and concrete businesses in Southern China, we decided to acquire Redland Concrete as our Directors believe that the acquisition could provide opportunities for our Group to develop the business of Redland Concrete. Further, our Directors believe that the acquisition of the Redland Concrete Group has the following benefits to our Group through increase recognition and access to finance:

- (i) it will enable us to obtain Redland Concrete's concrete business in Hong Kong, which generated strongly positive cash flows from its operations and was debt free;
- (ii) the resulting business synergies expected to be derived from the combination of our ready mixed concrete businesses with that of Redland Concrete. Our Directors believe that this will help us to combine our sales, marketing and brand promotion efforts and achieve economies of scale from sourcing, production, administration and distribution; and
- (iii) our Directors expect that Redland Concrete, as one of the leading concrete producers in Hong Kong, will benefit from the infrastructure projects planned by the Hong Kong government, which are expected to improve the long term outlook for the construction industry in Hong Kong.

Non-Competition Deed

China Resources Holdings has entered into a Non-Competition Deed in our favor of China Resources Cement Holdings Limited. Pursuant to the Non-Competition Deed, China Resources Holdings has undertaken not to compete with our businesses.

China Resources Holdings has undertaken that it shall not, and shall use its best endeavors to procure that any associates (as defined in the relevant rules and regulations but for the purpose of the Non-Competition Deed excluding any member of our Group, any subsidiary of China Resources Holdings whose shares are listed on the Hong Kong Stock Exchange and its subsidiaries) (**Relevant Companies**) shall not engage, invest, participate (as defined below) or be interested (economically or otherwise) in any of the following businesses in China and Hong Kong (**Restricted Business**):

- (a) the production, sale and distribution of clinker, cement and concrete products;

RELATIONSHIP WITH CHINA RESOURCES HOLDINGS

- (b) any business or investment activities that may compete, directly or indirectly, with any business carried on from time to time by any members of our Group;
- (c) acquiring, holding, transferring, disposing or otherwise dealing in any option, right or interest over any of the matters set out in paragraphs (a) or (b) above; and
- (d) acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, any interest in (including shares of) any company, joint venture, corporation or entity of any nature, whether or not incorporated, with any interest in the matters set out in paragraphs (a) to (c) above,

during the period commencing on [●] and ending on the earlier of:

- (a) the date when China Resources Holdings and any of the Relevant Companies cease to hold, or otherwise be interested in, beneficially in aggregate, whether, directly or indirectly, 30% or more of the issued ordinary share capital of our Company; and
- (b) [●]

(“Non-Competition Period”) (whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person) except:

- (a) through its interests in our Group from time to time; or
- (b) through acquiring or holding any investment or interest in units or shares of any company, investment trust, joint venture, partnership or other entity in whatever form which engages in any of the Restricted Business (“Competing Entity”) where such investment or interest does not exceed 5% of the outstanding voting shares of such Competing Entity provided such investment or interest does not grant, nor does the relevant party and/or the Relevant Companies otherwise hold any right to control the composition of the board of directors or managers of such Competing Entity nor any right to participate (as defined below), directly or indirectly, in such Competing Entity (“Passive Investments”).

For purposes of the Non-Competition Deed, a person is deemed to “participate” in a Restricted Business in situations, including but not limited to, where (i) such person provides to that Restricted Business any service which may be provided by a manager, a consultant, an adviser, an employee or an agent of that Restricted Business, whether such service is paid or unpaid; or (ii) such person permits, either expressly or implicitly, the use of any of our Company’s name, images, photographs, or any of the patents, copyrights, trademarks, domain names and other intellectual property rights either registered or in application for registration, to be associated with our Company or with that Restricted Business.

China Resources Holdings has also undertaken to procure that any business investment or other business or commercial opportunity relating to any Restricted Business or invention or discovery of products or technologies which could be applied to any Restricted Business that it or any of the Relevant Companies identifies or proposes or that is offered or presented to it or any of the Relevant Companies by a third party (“New Opportunity”) must be first referred to our Company in accordance with the Non-Competition Deed.

China Resources Holdings (“Offeror”) shall as soon as reasonably practicable following it becoming aware of the New Opportunity give written notice to our Company of the New Opportunity identifying the target

RELATIONSHIP WITH CHINA RESOURCES HOLDINGS

company (if relevant) and the nature of the New Opportunity and detailing all information reasonably necessary for our independent non-executive Directors to consider whether to pursue the New Opportunity (including details of any investment or acquisition costs and the contact details of the third party offering, proposing or presenting the New Opportunity to the Offeror) ("Offer Notice"). Our Company shall as soon as practicable and in any case within 25 business days from the receipt of the Offer Notice ("Relevant Period") notify the Offeror in writing of any decision taken to pursue or decline the New Opportunity. The Relevant Period may be extended upon request by our independent non-executive directors. The Offeror will be entitled to pursue the New Opportunity if: (i) the Offeror has received a notice from our Company declining the New Opportunity; or (ii) the Offeror has not received any written notice of our Company of its decision to pursue or decline the New Opportunity within the Relevant Period.

In deciding whether to pursue a particular New Opportunity, our Company will seek approval from its board or board committee, in either case, comprising independent non-executive directors who do not have a material interest in the matter. Our independent non-executive directors will consider whether it is in our interest and that of our shareholders as a whole to pursue the New Opportunity, taking into account the valuation of such New Opportunity as may be determined by an independent third party valuer appointed by us, where necessary. Our Company will disclose in its annual report: (i) any decision by the independent non-executive directors to decline the New Opportunity and the basis thereof; or (ii) its failure to notify the Offeror our independent non-executive directors' decision to pursue or decline the New Opportunity within the Relevant Period.

Our independent non-executive directors shall be entitled to engage professional advisors for advices on matters relating to the Non-Competition Deed or any New Opportunity referred to our Company by China Resources Holdings at our Company's costs.

China Resources Holdings has further undertaken that, during the Non-Competition Period, it:

- (a) will provide all information necessary for (i) the annual review by the independent board committee of our Company for the enforcement of the undertakings under the Non-Competition Deed and the compliance of the Non-Competition Deed by China Resources Holdings; and (ii) disclosure of decisions made by such committee on matters reviewed by it relating to the compliance and enforcement of the Non-Competition Deed in our Company's annual report or public announcement and will give consent to such disclosures;
- (b) make an annual declaration on compliance with the undertakings under the Non-Competition Deed for disclosure in the annual reports of our Company; and
- (c) in the event of any disagreement between the parties as to whether or not any activity or proposed activity of China Resources Holdings constitutes a Restricted Business or a breach of the Non-Competition Deed, the matter shall be determined by the independent board committee of our Company whose majority decision shall be final and binding.

Our independent non-executive directors will review China Resources Holdings' compliance with the Non-Competition Deed on an annual basis. We will disclose decisions on matters reviewed by our independent non-executive directors relating to the compliance and enforcement of the Non-Competition Deed either through our annual reports or by way of announcements to the public. We will also disclose China Resources Holdings' annual declaration on compliance with the Non-Competition Deed in our annual reports.

OUR INDEPENDENCE FROM CHINA RESOURCES HOLDINGS

Our Directors are satisfied that we are able to conduct our businesses independently from China Resources Holdings.

RELATIONSHIP WITH CHINA RESOURCES HOLDINGS

Independence of Business Operations

We have sufficient capital, equipment and employees to operate our businesses independently. We have direct access to our suppliers and customers, and do not rely on the suppliers and customer base of China Resources Holdings and its subsidiaries (excluding our Group). We make our business decisions independently. We do not share any operational facilities with China Resources Holdings. We supply cement to certain subsidiaries of China Resources Holdings. However, our business does not depend on the generation of turnover from such sales. For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total sales to the CRH Group was approximately HK\$23.4 million, HK\$21.3 million, HK\$10.2 million and HK\$4.6 million, respectively, which only represented 1.1%, 0.6%, 0.2% and 0.2% of our turnover from continuing operations, respectively. For the years ending December 31, 2009, 2010 and 2011, it is expected that our total sales to CRH Group will be approximately HK\$20.4 million, HK\$59.0 million, HK\$70.0 million, respectively, and will not account for a significant amount of our turnover. Our Directors therefore believe that we are operationally independent from China Resources Holdings.

Financial Independence

All non-trade balances with, and guarantees from or to China Resources Holdings and its associates have been fully repaid and released prior to [the Latest Practicable Date]. We have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payments, and independent access to third party financing. Although we received entrustment loans amounting to RMB847.5 million from China Resources SZITIC Trust Co. Ltd., a subsidiary of China Resources Holdings, such amount represented less than 10% of the total amount of bank loans of our Group as of 30 June 2009. We are able to obtain adequate financing and/or refinance the banking facilities without the support of the Controlling Shareholder, as shown by our strong record in obtaining bank finances during the Track Record Period. Further, in view of the large amount of unutilized banking facility of HK\$2,273.8 million as of 30 June 2009, in the event that our Controlling Shareholder is not able or not willing to provide the entrustment loans, we would have sufficient resources to replace such loans with external banking facilities. For details of the entrusted loans, please refer to section headed “Connected Transactions.” As such, our Directors believe that we are financially independent from China Resources Holdings.

Management Independence

Our Board currently comprises three executive directors, three non-executive directors and three independent non-executive directors. None of our Directors holds any directorship in China Resources Holdings. Our daily operations are managed by our senior management team which comprises Madam ZHOU Junqing, Mr. ZHOU Longshan, Mr. LAU Chung Kwok Robert, Madam SUN Mingquan, Mr. PAN Yonghong, Mr. DONG Bin, Mr. YU Zhongliang, Mr. JI Youhong, Mr. ZENG Fanrong, Mr. WANG Junxiang, Mr. DING Yuankui and Mr. NG Chong. All members of our senior management team are independent from China Resources Holdings and there is no over-lapping of directorship with China Resources Holdings. Further details of our senior management team are set out in the section headed “Directors, Senior Management and Employees.”

Our three non-executive directors, Mr. LI Fuzuo, Mr. DU Wenmin and Mr. WEI Bin also serve as heads of the Finance Department, Internal Audit and Supervision Department and Strategy Management Department⁽¹⁾, respectively, of China Resources Holdings. Mr. LI is responsible for analyzing and assessing the financial performance of China Resources Holdings. Mr. DU is responsible for the internal audit of China Resources

⁽¹⁾ The Strategic Management Department is responsible for reviewing and analyzing the management accounts and preparation of budget of China Resources Holdings. The Internal Audit Department is responsible for conducting internal audits on the management accounts of China Resources Holdings. The Finance Department is responsible for preparation of the management accounts of China Resources Holdings.

RELATIONSHIP WITH CHINA RESOURCES HOLDINGS

Holdings. Mr. Wei is responsible for conducting financial management of China Resources Holdings’ non-listed subsidiaries. Our Company is of the view that their positions in China Resources Holdings will not affect the management independence of our Company in any material manner because they are not directors of China Resources Holdings and do not have the power to make important decisions regarding the strategies and policies of China Resources Holdings. Such decisions are made by the board of China Resources Holdings. During the Track Record Period, no remuneration was received by our non-executive directors from our Company. For the remuneration to be paid to our non-executive directors, please refer to the section headed “Directors, Senior Management and Employees.” While our non-executive directors will be on the payroll of China Resources Holdings and our Company, we consider that there will not be any concern on their duties of care and loyalty owed to our Group as (i) they owe fiduciary duties to our Company to act honestly and in good faith in the interest of our Company and its shareholders as a whole and to avoid conflicts of interest and duty; (ii) it is intended that they will play a supervisory role in the management of our Company and will not be involved in the day-to-day management of the business and operations of our Group; and (iii) pursuant to the Articles of Association, a Director would not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he or any of his associates has any material interest. Further, none of our non-executive directors is a member of our Remuneration Committee and accordingly, they will not be involved in determining their own remuneration packages or those of the other Directors and senior management of the Company.

In selecting our non-executive directors, we consider that it is important for them to possess appropriate experience and sufficient knowledge of our Group to perform their duties. We decided to appoint Mr. LI Fuzuo, Mr. DU Wenmin and Mr. WEI Bin as our non-executive directors because (i) they have extensive operational, managerial and financial experience in the industry; (ii) they have an intimate understanding of the corporate culture of the China Resources Group; and (iii) they have demonstrated that they are qualified for their managerial duties.

The decision-making mechanism of our Board of Directors set out in our Articles of Association also includes provisions to avoid conflicts of interest by providing, among other things, that a Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Board in respect of any contract or arrangement or any other proposal in which he or she or any of his or her associates has any material interest.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team is able to manage our Group independently.

CONNECTED TRANSACTIONS

We have entered into a number of agreements to regulate our continuing business relationship with our connected persons. The following transactions will be regarded as our connected transactions within the meaning of the relevant rules and regulations:

CONNECTED TRANSACTION

Non-Competition Deed

China Resources Holdings, our controlling shareholder, has entered into a Non-Competition Deed in our favor dated September 2, 2009 to the effect that, for so long as China Resources Holdings and its associates are beneficially interested in, directly or indirectly, 30% or more of the issued ordinary share capital of our Company, neither China Resources Holdings nor any of its associates shall engage, invest, participate or be interested (economically or otherwise) in, among other things, the production, sale and distribution of clinker, cement and concrete products. For details, please see the section headed “Relationship with China Resources Holdings — Non-Competition Deed”.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Trademark License

We have entered into a Trademark Licensing Agreement with China Resources National Corporation on August 18, 2008. Pursuant to the Trademark Licensing Agreement, China Resources National Corporation has granted us a non-exclusive license to use the trademark of “華潤” (Huarun) on our cement products for nil consideration. China Resources National Corporation is the registered owner of the trademark registered under class 19 (including, without limitation, cement and concrete products) bearing registration no. 2019693 in the PRC. China Resources National Corporation has granted a non-exclusive license to our Company to use and to further sub-license such trademark to its subsidiaries in the PRC so as to enable us to use such trademark for a term of 2 years commencing on August 18, 2008 and such term is not subject to any early termination or renewal clauses. Before the expiration of the Trademark Licensing Agreement, we will decide either to renew the Trademark Licensing Agreement for the continued use of the “Huarun” trademark or develop other brands in marketing our products along with “Hongshuihe”. As we are well-established in the cement and concrete industry in China and our products are well-recognized by our customers, we do not expect any potential adverse impact on our business and financial results no matter our Group continues or stops to use the “Huarun” trademark. In addition, China Resources Holdings has granted us the right to use the following logo, which was registered in Hong Kong pursuant to a letter of authorization dated May 16, 2003: 

Our Directors consider that the term of the Trademark Licensing Agreement is in the interests of both our Company and China Resources National Corporation and are therefore on normal commercial terms.

2. Leasing of Office

CRC Investments, a subsidiary of our Company has leased from China Resources (Shenzhen) Company Limited, a subsidiary of China Resources Holdings, office premises in Shenzhen with a total area of approximately 872 square meters. The parties entered into a lease agreement on December 7, 2007 for a term of two years commencing on January 1, 2008. The annual rent is RMB1,778,880 and was determined with reference to market rent.

For the year ended December 31, 2008 and the six months ended June 30, 2009, the rental, building management fee and air-conditioning charges paid to China Resources (Shenzhen) Company Limited amounted to approximately HK\$2.4 million and HK\$1.2 million, respectively.

CONNECTED TRANSACTIONS

3. Entrustment Loans from China Resources SZITIC Trust Co. Ltd

Fuchuan Cement and Shangsi Cement, subsidiaries of our Company, each entered into an entrustment loan agreement dated May 31, 2009 with China Resources SZITIC Trust Co. Ltd. ("CR Trust"), a subsidiary of China Resources Holdings, and China Construction Bank Corporation Shenzhen Branch (中國建設銀行股份有限公司深圳市分行) ("CCBC"). Pursuant to the entrustment loan agreements, CR Trust provided a principal amount of RMB440.6 million and a principal amount of RMB406.9 million as loans to Fuchuan Cement and Shangsi Cement, respectively, for the purchase of cement production facilities, and CCBC agreed to act as trustee for CR Trust in respect of the entrustment loans. The interest payable by Fuchuan Cement and Shangsi Cement for the loans shall be 4.86% per annum respectively, adjusted annually after the first year in accordance with the adjustment to the PBOC benchmark rate for one to three years loans by commercial banks in the preceding year. Both loans are repayable on May 31, 2011 or earlier with the prior written consent of CR Trust. The handling fee charged by CCBC is 1.8% of the principal amount per annum for each loan.

Our Directors consider that the terms of each of the entrustment loan agreements are fair and reasonable, on normal commercial terms and are in the interests of our Company. No security over the assets of our Group is granted in respect of the entrustment loans.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Sale of Cement and Clinker to the CRH Group

We have entered into a Cement Supply Framework Agreement on January 1, 2008 with China Resources Holdings for the sale of cement products to certain subsidiaries of China Resources Holdings with a term of three years, and a supplemental agreement on August 1, 2009 to extend the term to December 31, 2011. The Cement Supply Framework Agreement has a term of three years commencing on the date of the agreement and may be terminated earlier by either party giving three months' prior written notice. Under the Cement Supply Framework Agreement, the prices charged by us for our cement products will be negotiated on an arm's length basis between the relevant parties with reference to the prevailing market prices.

For each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, our total amount of sales to the CRH Group was approximately HK\$6.8 million, HK\$6.0 million, HK\$7.0 million and HK\$4.4 million, respectively. During the Track Record Period, we supplied cement and clinker mainly to Redland Precast and certain subsidiaries of China Resources Power Holdings Limited ("CR Power Group").

Cement products sold by us to Redland Precast during the Track Record Period were for the manufacture of precast concrete products. The amount of sales fluctuated according to the construction and manufacturing activities of Redland Precast. For each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of sales to Redland Precast was approximately HK\$6.8 million, HK\$6.0 million, HK\$2.0 million and HK\$3.2 million, respectively. The decrease in the total sales amount in 2007 and 2008 was, as our Directors understand, due to changes in the specifications of the construction projects undertaken by Redland Precast. Redland Precast mostly participates in projects using precast concrete with high cement content. However, in 2007 and 2008, our Directors understand that Redland Precast undertook projects which were of a different type than the ones it typically undertakes. These projects involved the construction of structures using mainly glass fiber, such as Wynn Macau and Residence Bel-Air. Our Directors understand that Redland Precast has resumed the production of precast products with higher cement content in 2009 and on the basis of their usage of cement in the second quarter of 2009, it is estimated that cement with a sales value of approximately HK\$8.0 million will be delivered in 2009. Our Directors understand, given that the Hong Kong Government plans to invest in various infrastructure projects in the next few years, including the Hong Kong section of the Guangzhou-Shenzhen Hong Kong Express Rail Link transport infrastructure project (which works are expected to start by the end of 2009), the West Kowloon Cultural District strategic project (which works are expected to

CONNECTED TRANSACTIONS

start in 2011) and the construction of the Hong Kong-Zhuhai-Macao Bridge (which works are expected to start by the end of 2009) and Redland Precast's strong position in the Hong Kong precast industry, Redland Precast expects to receive more new orders. Our Directors understand that the suspension of development projects including four major hotels in the Cotai Strip resort district in Macau would not affect our sales of cement to Redland Precast as hotel projects in Macau use mainly glassfibre reinforced concrete. Assuming that it will continue to participate in the construction of mainly high cement content structures, our Directors expect that our annual amount of sales to Redland Precast for the years ending December 31, 2009, 2010 and 2011 will be approximately HK\$8.0 million, HK\$9.0 million and HK\$10.0 million, respectively, with an expected increase of 12 to 13% per annum due to price inflation and natural growth.

Cement supplied by us to the CR Power Group during the Track Record Period was used for the construction of power plants. For each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of sales to the CR Power Group was approximately nil, nil, HK\$5.0 million and HK\$1.2 million, respectively. Our Directors expect that the annual amount of sales to the CR Power Group will be approximately HK\$5.0 million, HK\$5.5 million and HK\$6.1 million for each year ending December 31, 2009, 2010 and 2011. The proposed annual cap for 2009 has been determined with reference to the sales amount of HK\$5.0 million in 2008.

Based on the above, our Directors expect that the annual caps for the sale of cement and clinker to the CRH Group should be set at HK\$13.0 million, HK\$14.5 million and HK\$16.1 million for the years ending December 31, 2009, 2010 and 2011, respectively.

2. Purchase of Fuel, Diesel and Lubricant Oil

We have entered into a Fuel, Diesel and Lubricant Oil Supply Agreement dated January 1, 2008 with China Resources Holdings for the purchase of fuel, diesel and lubricant oil from subsidiaries of China Resources Holdings, including Jiangmen Xinhui Jingneng Petroleum Limited (江門市新會經能石油有限公司), Shenzhen China Resources Petroleum Company Limited and CRC Special Oil Company Limited with a term of three years, and a supplemental agreement dated August 1, 2009 with the same party to extend the term to December 31, 2011. The Fuel, Diesel and Lubricant Oil Supply Agreement may be terminated earlier by either party giving three months' prior notice. The fuel, diesel and lubricant oil purchased by us are for electricity generation, operation and maintenance of our concrete mixer trucks and equipment. The prices payable by us for the fuel, diesel and lubricant oil will be negotiated on an arm's length basis between the relevant parties with reference to the prevailing market prices.

For each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of purchases was approximately HK\$17.9 million, HK\$3.7 million, HK\$3.4 million and HK\$1.7 million, respectively. There was a significant decrease in our purchases in 2007 because Dongguan Cement ceased to use its own electricity generators in 2007.

We are in the process of constructing additional cement and clinker production lines as well as concrete plants. Some of our new production lines are expected to commence production by the end of 2009. As a result, it is expected that there will be a significant increase in our demand for fuel, diesel and lubricant oil. Our Directors expect that the annual amount of purchases for each of the years ending December 31, 2009, 2010 and 2011 will not exceed HK\$5.0 million, HK\$5.5 million and HK\$6.1 million, respectively and consider that the annual caps for 2009, 2010 and 2011 should be set at such amounts. The annual cap for 2009 has been set by reference to the historical amounts and our increasing demand for fuel, diesel and lubricant oil, with an increase of 10% per annum for subsequent years due to inflation.

CONNECTED TRANSACTIONS

3. Sale of Concrete to the CRH Group

We have entered into a Concrete Supply Framework Agreement dated January 1, 2009 with China Resources Holdings for the sale of ready mixed concrete to the CRH Group. The agreement has a term commencing on the date of the agreement and ending on December 31, 2009 and may be terminated earlier by either party giving three months' prior written notice. Under the agreement, the prices charged by us for our concrete products will be negotiated on an arm's length basis between the relevant parties with reference to the prevailing market prices.

Save as disclosed under this section, our Group did not sell any concrete products to the CRH Group for each year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009.

Our Directors understand that the CRH Group has successfully won a bid for a major construction contract in the PRC for the construction of a real estate project in Nanning, Guangxi (the "Nanning Project"). Assuming that the contract will commence construction in the last quarter of 2009, our Directors expect that the annual amount of sales of concrete products to the CRH Group for the years ending December 31, 2009, 2010 and 2011 will be approximately HK\$14.8 million, HK\$45.4 million and HK\$45.4 million, respectively. The proposed annual cap for 2009 has been determined with reference to the expected demand of our concrete products from the CRH Group for the Nanning Project in the last quarter of 2009. Our Directors expect that the annual amount of sales to the CRH Group for 2010 and 2011 will increase significantly because we understand that CRH Group's demand for concrete products for the Nanning Project will peak in 2010 and 2011.

Based on the above, our Directors expect that the annual caps for the sale of concrete products to the CRH Group should be set at HK\$14.8 million, HK\$45.4 million and HK\$45.4 million for the years ending December 31, 2009, 2010 and 2011, respectively.

4. Sale of Concrete to China Resources Construction Company Limited

Redland Concrete has entered into an agreement dated January 1, 2009 for the sale of ready mixed concrete, to China Resources Construction Company Limited, a subsidiary of China Resources Holdings by the Redland Concrete Group. The agreement has a term commencing from the date of the agreement to December 31, 2011 and may be terminated earlier by either party giving three months' prior written notice. Under the agreement, the prices charged by the Redland Concrete Group will be negotiated on an arm's length basis between the parties with reference to the prevailing market prices.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of sales to China Resources Construction Company Limited was approximately HK\$16.5 million, HK\$15.2 million, HK\$3.2 million and HK\$0.2 million, respectively. There was a significant decrease in our sale to China Resources Construction Company Limited in 2008 because of the decrease in the number of construction projects undertaken by it in 2008.

Our Directors expect that the annual amount of sales to China Resources Construction Company Limited for the years ending December 31, 2009, 2010 and 2011 will not exceed HK\$7.4 million, HK\$44.5 million and HK\$53.9 million, respectively and consider that the annual caps for 2009, 2010 and 2011 should be set at such amounts. The proposed annual cap for 2009 has been determined with reference to the sales amount of HK\$3.2 million in 2008. Our Directors expect that the annual amount of sales to China Resources Construction Company Limited for 2010 and 2011 will increase significantly because they understand that China Resources Construction Company Limited expects to tender for major construction contracts in Hong Kong in those years, particularly in light of the Hong Kong Government's plan to invest in various infrastructure projects as discussed above.

CONNECTED TRANSACTIONS

5. Sale of Concrete to Penta-Ocean-CRCC JV

Redland Concrete has entered into an agreement dated May 24, 2008 for the sale of ready mixed concrete by the Redland Concrete Group to Penta-Ocean-CRCC JV, a joint venture beneficially owned as to 65% by Penta-Ocean and 35% by China Resources Construction Company Limited. The agreement may be terminated earlier by either party giving three months' prior written notice. Under the agreement, the prices charged by the Redland Concrete Group will be negotiated on an arm's length basis between the parties with reference to the prevailing market prices.

For the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the total amount of sales to Penta-Ocean-CRCC JV was approximately nil, nil HK\$22.9 million and HK\$17.1 million, respectively. Penta-Ocean-CRCC JV commenced operation in June 2008.

Our Directors expect that the annual amount of sales to Penta-Ocean-CRCC JV for the years ending December 31, 2009, 2010 and 2011 will not exceed HK\$23.0 million, HK\$5.0 million and nil, respectively. Such estimated amounts of sales for the year ending December 31, 2009 have been determined according to our delivery schedule. The Redland Concrete Group understands that Penta-Ocean-CRCC JV will complete a project undertaken by it in the second half of 2009, which is expected to result in a decrease in the estimated amount of sales in 2010 and 2011.

6. Testing Services

Quality Control Consultants Limited, a wholly-owned subsidiary of our Company, has entered into an agreement dated January 1, 2008 for the provision of testing services with a credit term of 30 days to a number of subsidiaries of China Resources Holdings, including Redland Precast, China Resources Construction Limited and Strong Progress Limited. The agreement has a term of three years commencing on the date of the agreement and ending on December 31, 2011 and may be terminated earlier by either party giving three months' prior written notice. The fees receivable by Quality Control Consultants Limited were determined with reference to the prevailing market prices. Market prices are determined during negotiations with our customers. Quality Control Consultants Limited understands that its customers would compare our quotation, which is determined by reference to our estimated costs for the provision of the required testing services and past experience with the relevant customers, with quotations provided by our competitors.

During the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, the fees received by us from the aforesaid subsidiaries of China Resources Holdings for the provision of testing services were approximately HK\$3.0 million, HK\$2.7 million, HK\$2.0 million and HK\$0.7 million, respectively.

Our Directors expect that the annual cap for 2009, 2010 and 2011 should be set at HK\$3.0 million, HK\$3.3 million and HK\$3.6 million, respectively, with an increase of approximately 10% per annum for subsequent years due to inflation.

APPLICATION FOR WAIVERS

No Waiver Sought for Certain Transactions

For each of the transactions under the sections headed "Connected Transactions" and "Exempt Continuing Connected Transactions," the applicable percentage ratios on an annual basis falls below 0.1%. Accordingly, these transactions are not subject to the reporting, announcement and independent shareholders' approval requirements under the relevant rules and regulations.

CONNECTED TRANSACTIONS

Scope of Waiver

For the non-exempt continuing connected transactions set out under the paragraphs headed “Sale of Cement and Clinker to the CRH Group,” “Purchase of Fuel, Diesel and Lubricant Oil,” “Sale of concrete to CRH Group,” “Sale of Concrete to China Resources Construction Company Limited,” “Sale of Concrete to Penta-Ocean-CRCC JV” and “Testing Services” above, we expect that the applicable percentage ratios on an annual basis will be less than 2.5%. These transactions are therefore exempt from the independent shareholders’ approval requirements under the relevant rules and regulations, but would still be subject to the reporting and announcement requirements under the relevant rules and regulations.

We expect these non-exempt continuing connected transactions to be carried out on a continuing and recurring basis and to extend over a period of time. Our Directors (including independent non-executive Directors) confirm that each of the continuing connected transactions set out above has been and will be entered into in the ordinary and usual course of our business, on normal commercial terms (or better to us), and is fair and reasonable and in the interests of our Company and our Shareholders as a whole. Our Directors also confirm that each of the proposed annual caps set out herein is fair and reasonable. We have applied for and have been granted waivers from compliance with the announcement and/or independent shareholders’ approval requirements relating to the non-exempt continuing connected transactions pursuant to the relevant rules and regulations.

Our Company will comply with the requirements under the relevant rules and regulations that are applicable to the non-exempt continuing connected transactions referred to in this section (including the annual caps). In the event of any future amendments to the relevant rules and regulations imposing more stringent requirements than those as at the date of this document on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

Our Board currently consists of nine Directors, comprising three executive directors, three non-executive directors and three independent non-executive directors. The powers and duties of the Board include convening shareholders' meetings, determining our Group's business plans and investment plans, formulating our Group's annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by our Articles of Association.

The table below shows certain information in respect of members of our Board:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Executive Directors		
ZHOU Junqing	55	Chairman and Executive Director
ZHOU Longshan	49	Executive Director and Chief Executive Officer
LAU Chung Kwok Robert	53	Executive Director and Chief Financial Officer
Non-executive Directors		
LI Fuzuo	45	Non-executive Director
DU Wenmin	45	Non-executive Director
WEI Bin	40	Non-executive Director
Independent non-executive Directors		
IP Shu Kwan Stephen	57	Independent non-executive Director
ZENG Xuemin	65	Independent non-executive Director
LAM Chi Yuen	41	Independent non-executive Director

Executive Directors

Madam ZHOU Junqing (周俊卿), aged 55, was appointed as an Executive Director and a deputy general manager of our Company on June 19, 2003 and was the General Manager of our Cement Business Division. Madam ZHOU was the Chief Executive Officer of our Company from September 2006 to August 2008 and she is now the Chairman and Executive Director of our Company. She joined China Resources Holdings in 1986 and also has been a director of Guigang Cement, Nanning Cement, Pingnan Cement and Hongshuihe Cement since January 2004, September 2004, October 2003 and December 2001, respectively. Madam ZHOU earned a bachelor's degree in wireless technology from Tsinghua University, China in 1979 and has 22 years of experience in international trade and corporate management. She is the Vice Chairman of the China Cement Association and the Vice Chairman of the 4th Session of the Guangdong Province Cement Industry Association.

Mr. ZHOU Longshan (周龍山), aged 49, was appointed as an Executive Director and a deputy general manager of our Company on March 13, 2003 and was the General Manager of our Concrete Business Division. He is now an executive director and was appointed as the Chief Executive Officer of our Company in August 2008. Mr. ZHOU also has been a director of Dongguan Cement since April 2008 and was the Chairman, Chief Executive Officer and an executive director of China Resources Gas Group Limited from March 2008 to November 2008. Mr. ZHOU earned a bachelor's degree in economics from the Jilin Finance and Trade Institute, China in 1983. He joined China Resources Holdings in 1984 and has 24 years of experience in international trade and corporate management. He is the Vice Chairman of the 5th Session of the Guangdong Province Cement Industry Association and Executive Member of the 1st Session of the Ready Mixed Concrete sub-council of China Concrete and Cement Products Association.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. LAU Chung Kwok Robert (劉忠國), aged 53, joined our Company in May 2003 as the Chief Financial Officer of our Company and was designated as the Finance Director of our Company on April 16, 2008. He was redesignated as Executive Director and Chief Financial Officer in August 2008. Mr. LAU's prior finance experience includes working at BDO, Chartered Accountants (Canada), Kwan Wong Tan & Fong (which merged with Deloitte Touche Tohmatsu in 1997) and China Energine International (Holdings) Limited (formerly known as Casil Telecommunications Holdings Limited), a listed company on the Hong Kong Stock Exchange, where he was Financial Controller and Company Secretary. Mr. LAU earned a bachelor's degree in Social Sciences from the University of Hong Kong in 1979 and has over 20 years of experience in reorganization, assurance and advisory services. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a member of the Canadian Institute of Chartered Accountants.

Non-executive Directors

Mr. LI Fuzuo (李福祚), aged 45, joined our Company as a non-executive director on August 12, 2008 and is currently an Assistant President of China Resources Holdings and the General Manager of its Strategy Management Department. Mr. LI is also a non-executive director of China Resources Enterprise Limited, China Resources Land Limited, China Resources Microelectronics Limited and China Resources Gas Group Limited since February 2008, August 2007, March 2008 and August 2006, respectively. The above four companies are all listed in Hong Kong. He was also the Vice Chairman and General Manager of China Resources (Jilin) Bio-chemical Co., Ltd, which is listed in China, until March 2006. Mr. LI obtained both his Bachelor's and Master's Degrees in Mechanical Manufacturing Engineering from the Beijing University of Aeronautics and Astronautics, China in 1987 and 1990, respectively, and joined China Resources Group in 1990.

Mr. DU Wenmin (杜文民), aged 45, joined our Company as a non-executive director on August 12, 2008 and is currently the Chief Audit Executive and the General Manager of the Internal Audit and Supervision Department of China Resources Holdings. Mr. DU also has been a non-executive director of China Resources Enterprise, Limited, China Resources Land Limited, China Resources Microelectronics Limited and China Resources Gas Group Limited since September 2007, August 2007, March 2008 and March 2008, respectively. The above four companies are all listed in Hong Kong. Mr. DU earned an MBA degree in 1993 from the University of San Francisco, USA and joined China Resources Group in 1985.

Mr. WEI Bin (魏斌), aged 40, joined our Company as a non-executive director on August 12, 2008 and is the General Manager of the Finance Department of China Resources Holdings. Mr. WEI is a non-executive director of China Resources Gas Group Limited, a company listed on the Stock Exchange since November 2008. Mr. WEI was a director of Shanghai Worldbest Industry Development Company Limited from December 2006 to November 2007 and Shandong Dongge E-jiao Company Limited from June 2005 to June 2008. The aforesaid two companies are both public companies listed in China. Mr. WEI was also a director of Shanghai Worldbest Company Limited ("SWCL"), a company incorporated in China and listed on the Shanghai Stock Exchange (Stock Code 600094), from March 2007 to November 2007. SWCL had already been in significant financial difficulty when Mr. WEI was appointed. Mr. WEI sat on the board of SWCL as a representative from China Resources National Corporation to assist with the restructuring of SWCL. Mr. WEI resigned from his directorship in SWCL as a result of the decision of China Resources National Corporation to appoint another representative onto the board of SWCL. SWCL is currently subject to bankruptcy proceedings in China. Mr. WEI earned a Bachelor's Degree in Auditing from Zhongnan University of Economics in 1992 and a Master's Degree in Finance from Jinan University in 2001. Mr. WEI is a Senior Accountant accredited by the Beijing Senior Specialized Technique Qualification Evaluation Committee on December 2, 2003 and a Senior Auditor accredited by the National Auditing Office Senior Auditor Evaluation Committee on September 26, 2003. He is also a non-practicing member of The Chinese Institute of Certified Public Accountants and joined the China Resources Group in 2001.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Independent non-executive Directors

Mr. IP Shu Kwan Stephen (葉樹堃), aged 57, was appointed an independent non-executive director of our Company on August 12, 2008. Mr. IP graduated from the University of Hong Kong with a degree in Social Sciences in 1973. Mr. IP joined the Hong Kong Government in November 1973 and was promoted to the rank of Director of Bureau in April 1997. He worked in the Hong Kong Special Administrative Region Government as a Principal Official from July 1997 to June 2007. Senior positions held by Mr. IP in the past include Commissioner of Insurance, Commissioner for Labor, Secretary for Economic Services and Secretary for Financial Services. Mr. IP took up the position of Secretary for Economic Development and Labor in July 2002. His portfolio in respect of economic development covered air and sea transport, logistics development, tourism, energy, postal services, meteorological services, competition and consumer protection. He was also responsible for labor policies including matters relating to employment services, labor relations and employees rights. In his capacity as Secretary for Economic Development and Labor, Mr. IP was a member of the Hong Kong Airport Authority Board, the Mandatory Provident Fund Authority Board, the Hong Kong International Theme Parks Company Board as well as the Chairman of the Logistics Development Council, Port Development Board, Maritime Industry Council and Aviation Development Advisory Committee. Mr. IP retired from the Hong Kong Government in July 2007. Mr. IP received the Gold Bauhinia Star award from the Hong Kong Government in 2001, and is an unofficial Justice of the Peace. Mr. IP is a director of Yangtze China Investment Ltd, a company listed in the UK, since February 2008 and a director of Synergis Holdings Limited, a company listed in Hong Kong, since September 2008.

Madam ZENG Xuemin (曾學敏), aged 65, was appointed an independent non-executive director of our Company on August 12, 2008. Madam ZENG is a senior engineer at professor level accredited by the State Economic and Trade Commission and a registered consulting engineer (investment) accredited by the National Development and Reform Commission. She studied at Beijing Architecture and Industrial Institute from 1963 to 1968 and started her career and served at Benxi Gongyuan Cement Factory as a technician and director of the laboratory between 1969 and 1983. From 1984 to March 2001, she worked at the Production Division and the Planning Division of the State Building Materials Bureau and served as the deputy director and the director of the various departments and divisions. She has been serving as the Vice President of the China Cement Association from April 2001 to date. Madam ZENG is specialized in managing matters in respect of the development and planning for, and the scientific advancement, policies and laws and regulations, construction investment in connection with as well as setting up the relevant standards and quotas applicable to, the building materials industry. She took the lead in formulating the relevant building materials industry development plans for the Seventh Five-Year Plan, Eighth Five-Year Plan, Ninth Five-Year Plan and Tenth Five-Year Plan and in setting up a wide spectrum of construction standards and quotas for the building materials industry, including the Standards of Design for a Cement Factory. For engineering and construction management, she was awarded with a number of the Grade 1 and Grade 2 prizes at the provincial level.

Mr LAM Chi Yuen (林智遠), aged 41, was appointed an independent non-executive director of our Company on August 12, 2008. He is the sole proprietor of Nelson and Company, Certified Public Accountants which has been in operation since February 2005. He has extensive experience in professional accountancy in Hong Kong, in particular in advising and speaking on issues relating to International and Hong Kong Financial Reporting Standards in Hong Kong and other Asian cities. He has a Bachelor (Hons) degree of Business Administration from the Hong Kong Baptist University (1992), a Master degree of Business Administration from the Hong Kong University of Science and Technology (1998) and a Master of Science in Finance from the Chinese University of Hong Kong (2001).

Mr. LAM is a practicing fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a member of several professional bodies in Australia, the US and the UK, including CPA Australia, the American Institute of Certified Public Accountants and the Institute of Chartered Accountants of England and Wales. He is also a CFA charter holder and a fellow member of the Hong Kong Institute of Directors. Since 2007, he has been appointed as a Panel Member of the Financial Reporting

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Review Panel by the Chief Executive of the HKSAR Government. In December 2006 Mr. LAM became a Council Member of the Society of Chinese Accountants and Auditors and since January 2009 has served as its Honorary Treasurer. He has also been appointed as Visiting Associate Professor in the Beijing Normal University–Hong Kong Baptist University United International College since October 2008. Mr. LAM, or through his firm, had not provided any advisory services to our Group during the Track Record Period.

Senior Management

Madam SUN Mingquan (孫明權), aged 54, was appointed our Guangdong regional general manager in September 2008 and she has also been a deputy general manager of our Company since May 2006. She joined China Resources Holdings in 1984, and was an executive director of our Company from June 2003 to August 2008 and the Vice Chairman of Hongshuihe Cement since January 2005. She is responsible for the overall management of our Group's precast products business and the management of the cement operations of Hongshuihe Cement during the Track Record Period. Madam SUN earned a bachelor's degree in economics from the University of International Business and Economics, Beijing in 1983. She has more than 20 years' experience in international trade and corporate management.

Mr. PAN Yonghong (潘永紅), aged 39, was appointed our Guangxi regional general manager in September 2008. Mr. PAN is responsible for the financial management of our Group's cement operations during the Track Record Period. Mr. PAN joined our Group as the financial controller of China Resources Cement Company Limited in August 2003 and was formerly an executive Director of CRC Investments from February 2007 to February 2008. Mr. PAN was also the financial controller of Hongshuihe Cement and Dongguan Cement both from September 2003 to January 2005. Mr. PAN obtained his master's degree in finance from Jinan University in 1998. He has 16 years' experience in financial management.

Mr. DONG Bin (董斌), aged 45, joined our Group as the general manager of Guigang Cement in January 2004 and was appointed our Fujian regional general manager in September 2008. Mr. DONG was also the sales and marketing controller of our Company from February 2008 to September 2008. Mr. DONG is responsible for our Group's sales and marketing and the management of Guigang Cement during the Track Record Period. He earned a degree in cement craftwork from the Shandong Institute of Building Materials in 1985. He has 23 years of experience in the cement industry. Prior to joining our Group, Mr. DONG was a director and general manager of Guangxi Yufeng Cement Stock Co., Ltd from 2002 to 2004.

Mr. YU Zhongliang (余忠良), aged 44, joined our Company as a manager of the investment department in July 2003 and was appointed strategic development controller in February 2008 to be responsible for the strategic development of our Group. He earned an MBA from York University, Canada in 2003. He has 20 years of experience in finance accounting and business analysis. Mr. YU was a manager of the investment department of Minmetals Holdings before our Company's previous listing in 2003.

Mr. JI Youhong (紀友紅), age 44, joined our Group in October 2003 and was appointed our sales and marketing controller in November 2008. Mr. JI is responsible for the management of our Group's concrete operations and our Group's sales and marketing during the Track Record Period. Mr. JI joined the China Resources Holdings group in 2001 and was the general manager of Shenzhen China Resources Wenwei Concrete Limited from 1998 to 2001. He graduated from Nanjing Industrial College (now Southeast University) in 1988 with a master degree in inorganic and non-metallic materials. He has over 20 years of experience in construction material engineering.

Mr. ZENG Fanrong (曾繁榮), aged 46, joined our Group as the general manager of Pingnan Cement in January 2005 and was appointed chief operations controller of our Company since February 2008. Mr. ZENG is responsible for the overall business operations and project development administration of our Company. He earned a degree in electrical automation engineering from the Sichuan Institute of Building Materials in 1984. He

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has more than 20 years’ experience in the cement industry. He was the general manager of Guigang Cement from July 2007 to January 2008. Prior to joining our Group, Mr. ZENG was a director of Guangxi Yufeng Group Ltd and a director and deputy general manager of Guangxi Yufeng Group Cement Company Limited from 2002 to 2005.

Mr. WANG Junxiang (王軍祥), aged 41, joined our Company as senior financial manager in July 2003 and was appointed financial controller of our Company in February 2008 to be responsible for our Group’s financial affairs. He was also appointed procurement controller of our Company in February 2009 to be responsible for the Group’s purchases of raw materials and coal. Mr. WANG joined the China Resources Holdings group in 1989 and was a senior manager of the finance and accounting department of Minmetals Holdings before our Company’s previous listing in 2003. He earned an MBA degree from the University of South Australia in 2004. He has 14 years’ experience in financial management.

Mr. DING Yuankui (丁遠奎), aged 35, joined our Company in April 2008 and was appointed the human resources controller of our Company in November 2008 to be responsible for our Group’s human resources affairs. He earned a BA from Zhongnan University of Economics in 1996 and an MBA from Tsinghua University, China in 2003 and a professional training certificate from American International Training Association in 2004. He has 12 years of experience in corporate human resources management and marketing management. Before joining our Group, Mr. DING was a human capital controller of Mercer Consulting (Shanghai) Co., Ltd. Shenzhen Branch from 2005 to 2008.

Mr. TANG Jun (唐俊), aged 54, joined our Company as the general manager of the human resources and administration department in November 2007 and was appointed as the controller of the CEO’s office in February 2008 to assist the Chief Executive Officer of our Company in discharging his responsibilities. He earned a bachelor’s degree in Chinese language and literature from Sichuan University, China in 1982. He joined China Resources Holdings in 1995 and was the general manager of its Research Department from 2003 to 2007. Mr. TANG was formerly employed at MOFCOM, where he served as a director.

Mr. NG Chong (吳昶), aged 40, was appointed the assistant to the Chief Executive Officer of our Company in August 2008. He graduated from Beijing University of Technology in 1990 with a bachelor’s degree in marketing. Before joining our Group in 2008, he served as assistant to general manager of ChemChina International Holding Company, a wholly-owned subsidiary of China National Chemical Corporation, from 2005 to 2008. Mr. NG has 18 years of experience in international trade and corporate management.

Qualified Accountant

Mr. LAU Chung Kwok Robert (劉忠國), Please see “Executive Directors” for the background information of Mr. LAU.

Company Secretary

Mr. LO Chi Lik Peter (羅志力), aged 59, was appointed as the Company Secretary on May 29, 2009. He qualified as a solicitor in Hong Kong in 1976 and has been in continuous practice since qualification. He is currently a partner of Messrs. Woo, Kwan, Lee & Lo.

Board Committees

Audit Committee

We have established an audit committee with written terms of reference in compliance with the relevant rules and regulations. The primary duties of the Audit Committee will be to review and supervise our financial reporting process and internal control of our Company and nominate and monitor external auditors.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The Audit Committee consists of three members, namely Mr. Lam Chi Yuen, Mr. Ip Shu Kwan Stephen and Madam Zeng Xuemin, who are independent non-executive directors. The chairman of the Audit Committee is Mr. Lam Chi Yuen.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with the relevant rules and regulations. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration package of our Directors and senior management and evaluate and make recommendations on employee benefit arrangements.

The Remuneration Committee consists of five members, namely Madam Zeng Xuemin, Mr. Ip Shu Kwan Stephen, Mr. Lam Chi Yuen, Mr. Zhou Longshan and Mr. Lau Chung Kwok Robert. The chairman of the Remuneration Committee is Madam Zeng Xuemin.

Mr. Zhou Longshan and Mr. Lau Chung Kwok Robert, both being Directors of our Company, shall abstain from voting on any resolutions of the Remuneration Committee for approving their respective remuneration. This will be reflected in the terms of reference of the Remuneration Committee.

Nomination Committee

We have established a nomination committee with written terms of reference as recommended under the relevant rules and regulations. The primary function of the Nomination Committee is to make recommendations to our board of Directors on the appointment and removal of Directors of our Company.

The Nomination Committee consists of four members namely Mr. Ip Shu Kwan Stephen, Madam Zeng Xuemin, Mr. Lam Chi Yuen and Madam Zhou Junqing. The Chairman of the Nomination Committee is Mr. Ip Shu Kwan Stephen.

Compliance Adviser

We have appointed Anglo Chinese Corporate Finance, Limited as our compliance adviser pursuant to the relevant rules and regulations. Pursuant to the relevant rules and regulations, the compliance adviser will advise us in the following circumstances:

- Before the publication of any regulatory announcement, circular or financial report; and
- Where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Remuneration of Directors

The aggregate amount of salaries, housing allowances, pension scheme contributions, other allowances, benefits-in-kind and bonuses paid by us to our Directors during the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 were approximately HK\$4.3 million, HK\$5.3 million, HK\$7.3 million and HK\$6.0 million, respectively. We have no plan to change the Director's remuneration policy. Please refer to note 9 of the Accountants' Report of the Company set forth in Appendix I in this document for details of our Directors' emoluments, which includes emoluments received by the persons who were Directors during the Track Record Period and resigned before the Latest Practicable Date. Of these resigned Directors, those who were executive Directors were responsible for managing our Group's operations, and those who were non-executive Directors and independent non-executive Directors were not involved in our Group's day to day operations during their term of office. Our Directors confirmed that there is no matter which is required to draw the attention of the investors in relation to the resignation of the persons who were Directors during the Track Record Period but resigned their directorship prior to the Latest Practicable Date. The following table sets out the annual salary of the Directors in 2008:

Range of Annual Salary	Number of Directors ⁽¹⁾ 2008
HK\$2,500,001 – HK\$3,000,000	1
HK\$1,500,001 – HK\$2,000,000	1
HK\$1,000,001 – HK\$1,500,000	2
HK\$1,000,000 and below	9

⁽¹⁾ Ms. Sun Mingquan, Mr. Qiao Shibo, Mr. Jiang Wei and Mr. Song Lin resigned from their directorships of our Company in August 2008, and Mr. Li Fuzuo, Mr. Du Wenmin and Mr. Wei Bin were appointed as non-executive directors of our Company in August 2008.

During the years ended December 31, 2006, 2007 and 2008:

- No remuneration was paid by us to, or receivable by, our Directors as an inducement to join or upon joining us.
- No compensation was paid by us to, or receivable by, our Directors or past Directors for the loss of office as a Director or for loss of any other office in connection with the management of our affairs; and
- None of our Directors waived any emoluments.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The table below sets out the remuneration of each of the Directors of our Company for the financial year ended December 31, 2008:

<u>Director</u>	<u>Total (including fees)</u>
	HK\$'000
ZHOU Junqing	2,759
ZHOU Longshan	1,961
SUN Mingquan ⁽¹⁾	1,100
LAU Chung Kwok Robert ⁽³⁾	1,275
LI Fuzuo ⁽²⁾	Nil
DU Wenmin ⁽²⁾	Nil
WEI Bin ⁽²⁾	Nil
IP Shu Kwan Stephen	54
ZENG Xuemin	54
LAM Chi Yuen	54
QIAO Shibo ⁽¹⁾	Nil
JIANG Wei ⁽¹⁾	Nil
SONG Lin ⁽¹⁾	Nil
	<u>7,257</u>

⁽¹⁾ Mr. Song Lin, Mr. Qiao Shibo, Mr. Jiang Wei and Ms. Sun Mingquan resigned from their directorships of the Company in August 2008.

⁽²⁾ Mr. Li Fuzuo, Mr. Du Wenmin and Mr. Wei Bin were appointed as non-executive directors of the Company in August 2008.

⁽³⁾ Mr. Lau Chung Kwok Robert was appointed as Finance Director in April 2008 and was redesignated as Executive Director and Chief Financial Officer in August 2008.

Employees

We had 8,928 employees as at June 30, 2009. The remuneration payable to the employees includes salaries and allowances.

Our Group recognizes the importance of a good relationship with our employees. Our Group has not experienced any significant problems with its employees or disruption to its operations due to labor disputes, nor has it experienced any difficulties in its recruitment and retention of experienced staff. Our Directors believe that our Group has a good working relationship with our employees.

Compensation of Employees

Compensation of our employees includes basic salary and bonuses. Bonuses are determined on a yearly basis based on performance reviews. Compensation of sales staff primarily comprises commissions linked to sales performance.

We believe in incentivizing, retaining and rewarding employees, and attracting new talent, through share-based incentives which will align their interests with that of our Company. To this end, we have adopted a share award scheme that will take effect upon [●]. The Board may, from time to time, at its absolute discretion select any eligible employee for participation in the share award scheme as a selected grantee. For more details, please see the section headed “Statutory and General Information — 6. Further Information About Our Directors, Management and Employees” in this document.

We incurred staff costs (comprising sales commission, staff salaries and welfare expenses, contributions to retirement benefit schemes and staff and workers’ bonus and welfare fund) of approximately HK\$374.2 million for the year ended December 31, 2008 representing approximately 6.47% of our turnover from continuing operations for those periods.

We confirm that no compensation was paid by us to, or receivable by, such employees for the years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 for loss of office in connection with the management of our affairs, or as an inducement to join or upon joining us.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Our employees in China participate in various social security plans, which cover pension, medical and other welfare benefits. We are required to make contributions to the plans calculated based on percentage of the monthly compensation of employees, subject to a certain ceiling, and are paid to the respective labor and social welfare authorities. The local government is responsible for the planning, management and supervision of the scheme, including collecting and investing the contributions, and paying out the pensions to the retired employees.

In particular, we are required to provide housing funds for our employees. However, some of our subsidiaries were unable to pay housing fund contributions for our employees due to (i) the reluctance of our employees: some of our employees are reluctant to participate in the housing provident fund scheme as making contributions lowers their disposable income and in most of time, they cannot keep this benefits when they change jobs, primarily because the employees are unable to withdraw the contributions they and the employers make when they move to a new region for a new job; (ii) the short-term employment of some of our employees: some of our employees are under short-term contract or new joiners under probation, which made us difficult to make contributions for them; and (iii) the residence rules in Shenzhen: as some of our employees are without Shenzhen permanent residence, our subsidiaries in Shenzhen were unable to contribute the housing funds for them under the relevant regulations in Shenzhen. We estimate the total amount of underpayment for the period from the establishment of the relevant subsidiaries to June 30, 2009 is approximately RMB1.06 million. We, however, have sufficient funds for this underpayment and have taken steps to liaise and work with the relevant employees with a view to satisfy the requirements as much as practicable and permitted under applicable laws. Furthermore, should detailed rules regarding the implementation of the requirements for housing fund contributions in Shenzhen be promulgated, we will endeavor to comply with them. Thus, on the basis of the relatively small amount of the underpayment and the actions we have already taken, we do not believe that this non-compliance is likely to have any material adverse effect on our business or financial results.

We participate in a provident fund scheme, or the Scheme, registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our employees in Hong Kong. Voluntary Contributions are vested in our employees over a period of time. Subject to limited exceptions, all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or ceases employment and attains the age of 60. Our contributions to the Scheme can be used to offset any long service payments or severance payments payable and are deductible for income tax purposes.

COMPLIANCE ADVISOR

We have appointed Anglo Chinese Corporate Finance, Limited as our compliance advisor pursuant to the relevant rules and regulations. Pursuant to the relevant rules and regulations, the compliance advisor will advise us on the following matters:

- (i) the publication of any regulatory announcement, circular or financial report; and
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases.

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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 m³ 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.

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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

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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

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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.

Average unit price ⁽¹⁾	Year ended December 31,					Six months ended June 30,		
	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,

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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

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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

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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.

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- (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.

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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	%	HK\$'000	%
							(unaudited)			
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.

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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	<u>487,175</u>	<u>1,081,112</u>	<u>1,319,210</u>	<u>714,129</u>	<u>733,507</u>

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	<u>30.8</u>	<u>27.7</u>	<u>24.5</u>	<u>23.7</u>	<u>24.8</u>
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.

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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		HK\$'000	
							(unaudited)			
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

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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	HK\$'000
				(unaudited)	
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
	<u>85,776</u>	<u>69,223</u>	<u>265,499</u>	<u>220,083</u>	<u>40,785</u>

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	HK\$'000
				(unaudited)	
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
	<u>166,880</u>	<u>271,025</u>	<u>346,656</u>	<u>157,964</u>	<u>147,289</u>

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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	HK\$'000
				(unaudited)	
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
	<u>221,242</u>	<u>346,395</u>	<u>345,351</u>	<u>155,576</u>	<u>173,441</u>

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, HK\$822.8 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

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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

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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.

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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.

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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.

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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.

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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.

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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.

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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

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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

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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.

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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.

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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.

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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.

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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	<u>1,482,296</u>	<u>1,774,141</u>	<u>1,901,384</u>	<u>3,568,555</u>
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	<u>2,686,865</u>	<u>3,995,437</u>	<u>4,533,701</u>	<u>5,520,540</u>
Net current liabilities	<u>(1,204,569)</u>	<u>(2,221,296)</u>	<u>(2,632,317)</u>	<u>(1,951,985)</u>

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.

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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

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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.

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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	HK\$'000
				(unaudited)	
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	<u>229,976</u>	<u>339,013</u>	<u>363,889</u>	<u>328,144</u>	<u>861,950</u>

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	HK\$'000
				(unaudited)	
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	<u>150,340</u>	<u>762,865</u>	<u>1,052,790</u>	<u>328,677</u>	<u>254,881</u>

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.

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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

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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

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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
	<u>708,115</u>	<u>244,389</u>	<u>6,216,061</u>	<u>7,420,674</u>

⁽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.

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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
	<u>140,324</u>	<u>105,429</u>	<u>42,078</u>	<u>100,826</u>
Represented by:				
Land and buildings	140,324	100,304	35,259	90,955
Motor vehicles	—	5,125	6,819	9,871
	<u>140,324</u>	<u>105,429</u>	<u>42,078</u>	<u>100,826</u>

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
	<u>2,887,865</u>	<u>2,004,281</u>	<u>4,497,575</u>	<u>8,708,873</u>
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	<u>1,081,426</u>	<u>818,647</u>	<u>1,686,812</u>	<u>4,810,987</u>
Secured	180,000	160,000	—	1,146,170
Unsecured	<u>2,707,865</u>	<u>1,844,281</u>	<u>4,497,575</u>	<u>7,562,703</u>
	<u>2,887,865</u>	<u>2,004,281</u>	<u>4,497,575</u>	<u>8,708,873</u>

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

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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

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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
	<u>333,936</u>	<u>362,488</u>	<u>379,789</u>	<u>527,986</u>
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.

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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	—	—	—
	<u>557,974</u>	<u>649,259</u>	<u>638,156</u>	<u>625,233</u>
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.

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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	<u>404,114</u>	<u>195,681</u>	<u>282,247</u>	<u>346,709</u>

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

	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
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
	<u>270,291</u>	<u>247,405</u>	<u>316,664</u>	<u>383,563</u>

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
	2006	2007	2008	ended June 30,
	(HK\$'000)	(HK\$'000)	(HK\$'000)	2009
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	<u>40,476</u>	<u>92,381</u>	<u>72,169</u>	<u>53,253</u>

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

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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	—	—	—
	<u>469,085</u>	<u>586,930</u>	<u>785,190</u>	<u>726,002</u>
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.

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

	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
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	<u>392,604</u>	<u>663,389</u>	<u>889,235</u>	<u>880,663</u>

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

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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

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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.

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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
		<u>2,635,781</u>	<u>595,827</u>	<u>618,415</u>	<u>3,850,023</u>	<u>3,609,815</u>
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
		<u>3,980,064</u>	<u>369,155</u>	<u>506,029</u>	<u>4,855,248</u>	<u>4,638,205</u>
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
		<u>4,275,618</u>	<u>912,961</u>	<u>984,343</u>	<u>6,172,922</u>	<u>5,802,164</u>
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
		<u>5,629,563</u>	<u>2,023,178</u>	<u>3,434,968</u>	<u>11,087,709</u>	<u>10,093,196</u>

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.

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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
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
				HK\$'000
<u>Impact on profit</u>				
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	—
	<u>—</u>	<u>—</u>	<u>953</u>	<u>—</u>
<u>Impact on other equity</u>				
if RMB strengthens against HK\$	—	—	81,027	101,498
	<u>—</u>	<u>—</u>	<u>81,027</u>	<u>101,498</u>

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.

FINANCIAL INFORMATION

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.

FINANCIAL 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
	<u>11,600,193</u>	<u>—</u>	<u>11,600,193</u>	<u>1,391,595</u>	<u>(59,876)</u>	<u>—</u>	<u>12,931,912</u>
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
	<u>3,568,555</u>	<u>—</u>	<u>3,568,555</u>	<u>372,161</u>	<u>(377,392)</u>	<u>(271,431)</u>	<u>3,291,893</u>
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
	<u>5,520,540</u>	<u>—</u>	<u>5,520,540</u>	<u>532,099</u>	<u>—</u>	<u>(271,431)</u>	<u>5,781,208</u>
Net current liabilities	<u>(1,951,985)</u>	<u>—</u>	<u>(1,951,985)</u>	<u>(159,938)</u>	<u>(377,392)</u>	<u>—</u>	<u>(2,489,315)</u>
Total assets less current liabilities	<u>9,648,208</u>	<u>—</u>	<u>9,648,208</u>	<u>1,231,657</u>	<u>(437,268)</u>	<u>—</u>	<u>10,442,597</u>
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
	<u>4,882,351</u>	<u>—</u>	<u>4,882,351</u>	<u>475,414</u>	<u>20,304</u>	<u>—</u>	<u>5,378,069</u>
	<u>4,765,857</u>	<u>—</u>	<u>4,765,857</u>	<u>756,243</u>	<u>(457,572)</u>	<u>—</u>	<u>5,064,528</u>

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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
	<u>1,639,289</u>
Carrying value of the following properties as at June 30, 2009	
— Properties	1,301,809
— Prepaid lease payments	335,018
— Investment property	34,000
	<u>1,670,827</u>
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
	<u>345,503</u>
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.	<u><u>247,100</u></u>

FUTURE PLANS

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position since June 30, 2009, the date of our latest audited consolidated statements of financial position.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the latest practicable date, there were no circumstances that would give rise to a disclosure requirement under Listing Rules 13.13 to 13.19.

Future Plans and Prospects

Future Plans

In order to meet the fast growing demand for our product products, we plan to further expand our production capacity through the construction of new production facilities. We are currently constructing eight cement production lines with a total annual production capacity of 7.5 million tons in Fengkai, Shangsi, Fuchuan and Shantou, four additional clinker production lines with a total annual production capacity of 6.2 million tons in Fengkai, Shangsi and Fuchuan; and 6 concrete batching plants with a total annual production capacity of 3.6 million cubic meters in various towns of Guangdong and Guangxi. For these existing construction projects, our Company expects: (i) four cement production lines in Fengkai and Fuchuan will be completed in March 2010; (ii) four cement production lines in Shangsi and Shantou will be completed in September 2009; and (iii) three clinker production lines in Fengkai and Fuchuan will be completed in March 2010 and one other clinker production line will be completed in Shangsi in September 2009. We are currently constructing six concrete batching plants with a total annual production capacity of 3.6 million cubic meters. Our Company intends to construct six additional cement production lines with a total annual production capacity of 5.7 million tons and four additional clinker production lines with a total annual production capacity of 6.1 million tons in Fengkai, Tianyang and Wuxuan, and four additional concrete batching lines with a total annual production capacity of 2.4 million cubic meters in different areas of Guangdong, Guangxi and Hainan. It normally takes 12-18 months to construct a cement/clinker production line and 6-12 months to construct a concrete batching plant. In addition, it normally takes 1-3 months for cement and clinker production lines and 1-2 months for concrete batching plants to ramp up to full operation. Trial run of our production lines normally commence as soon as construction is completed and usually takes 1-3 months.

APPENDIX I

ACCOUNTANTS’ REPORT OF THE COMPANY



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[Date]

The Directors
China Resources Cement Holdings Limited
[●]

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to China Resources Cement Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended December 31, 2008 and six months ended June 30, 2009 (the “Track Record Period”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands on March 13, 2003.

On July 29, 2003, the Company’s entire shares in issue of 362,807,461 shares of HK\$0.10 each were listed on the Stock Exchange by way of introduction. The details are set out in the prospectus issued by the Company on June 26, 2003.

On March 29, 2006, China Resources (Holdings) Company Limited (“CRH”), through its wholly-owned subsidiary, Smooth Concept Investments Limited (“Smooth Concept”), put forward to the shareholders of the Company a scheme of arrangement proposing the privatization and withdrawal of listing of the Company (the “Scheme of Arrangement”). Details of the Scheme of Arrangement are set out in note 40 to Section A below. The listing of the shares of the Company on the Stock Exchange was withdrawn on July 26, 2006.

Throughout the Track Record Period and as at the date of this report, the Company has interests in the following:

Subsidiaries	Place of incorporation/ establishment/ registration	Date of incorporation/ establishment/ registration	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group					Principal activities
				At December 31,			At June 30,	At date of report	
				2006	2007	2008	2009		
Ango Resources Limited	British Virgin Islands	February 18, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(京富資源有限公司)	British Virgin Islands	February 21, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
Capital Rich Resources Limited									
(中國水泥(汕頭)有限公司)	Hong Kong (“HK”)	December 2, 1993	HK\$2	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
China Cement Company (Shantou) Limited					(Note k)				
(華潤水泥(防城港)有限公司)	Chinese Mainland	December 16, 2005	HK\$15,000,000	100%	100%	100%	100%	100%	Manufacture and sale of cement
China Resources Cement (Fangchenggang) Limited									
(“Fangchenggang Cement”) ⁽²⁾									

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ACCOUNTANTS’ REPORT OF THE COMPANY

Subsidiaries	Place of incorporation/ establishment/ registration	Date of incorporation/ establishment/ registration	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group					Principal activities
				At December 31,			At June 30,	At	
				2006	2007	2008	2009	date of report	
(華潤水泥(封開)控股有限公司) China Resources Cement (Fengkai) Holdings Limited	HK	February 4, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(華潤水泥(封開)有限公司) China Resources Cement (Fengkai) Limited ("Fengkai Cement") ⁽²⁾	Chinese Mainland	August 14, 2007	US\$34,435,600	N/A	100%	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(富川)有限公司) China Resources Cement (Fuchuan) Limited ("Fuchuan Cement") ⁽²⁾	Chinese Mainland	May 9, 2008	HK\$50,000,000	N/A	N/A	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(福州)控股有限公司) China Resources Cement (Fuzhou) Holdings Limited	HK	February 4, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(華潤水泥(福州)有限公司) China Resources Cement (Fuzhou) Limited (formerly Fuzhou Development Zone Shun Li Building Materials Company Limited (福州開發區順利建材有限公司)) ("Fuzhou Cement") ⁽²⁾	Chinese Mainland	October 24, 2001	RMB14,000,000	N/A	100% (Note 1)	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(貴港)有限公司) China Resources Cement (Guigang) Limited ("Guigang Cement") ⁽²⁾	Chinese Mainland	January 12, 2004	US\$55,104,000	100%	100%	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(桂平)控股有限公司) China Resources Cement (Guiping) Holdings Limited	HK	February 13, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(華潤水泥(桂平)有限公司) China Resources Cement (Guiping) Limited ("Guiping Cement") ⁽²⁾	Chinese Mainland	May 26, 2008	HK\$16,000,000	N/A	N/A	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(合浦)控股有限公司) China Resources Cement (Hepu) Holdings Limited	HK	April 3, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(華潤水泥(合浦)有限公司) China Resources Cement (Hepu) Limited ("Hepu Cement") ⁽²⁾	Chinese Mainland	July 3, 2008	HK\$50,000,000	N/A	N/A	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(紅水河)控股有限公司) China Resources Cement (Hongshuihe) Holdings Limited	HK	February 13, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(華潤水泥(陸川)控股有限公司) China Resources Cement (Luchuan) Holdings Limited	HK	April 3, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(華潤水泥(陸川)有限公司) China Resources Cement (Luchuan) Limited ("Luchuan Cement") ⁽²⁾	Chinese Mainland	July 28, 2008	RMB243,980,000	N/A	N/A	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(龍岩)有限公司) China Resources Cement (Longyan) Limited ("Longyan Cement") ⁽²⁾	Chinese Mainland	March 30, 2009	US\$33,280,000	N/A	N/A	N/A	100%	100%	Manufacture and sale of cement
(華潤水泥(南寧)有限公司) China Resources Cement (Nanning) Limited ("Nanning Cement") ⁽²⁾	Chinese Mainland	November 9, 2004	US\$55,200,000	100%	100%	100%	100%	100%	Manufacture and sale of cement

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ACCOUNTANTS’ REPORT OF THE COMPANY

Subsidiaries	Place of incorporation/ establishment/ registration	Date of incorporation/ establishment/ registration	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group					Principal activities
				At December 31,			At June 30,	At date of report	
				2006	2007	2008	2009		
(華潤水泥(平南)有限公司) China Resources Cement (Pingnan) Limited (formerly Guangxi Pingnan China Resources Yufeng Cement Company Limited) ("Pingnan Cement") ⁽²⁾	Chinese Mainland	November 4, 2003	RMB1,080,780,000	100%	100%	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(上思)控股有限公司) China Resources Cement (Shangsi) Holdings Limited	HK	February 4, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(華潤水泥(上思)有限公司) China Resources Cement (Shangsi) Limited ("Shangsi Cement") ⁽²⁾	Chinese Mainland	January 15, 2008	RMB220,440,000	N/A	N/A	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(田陽)控股有限公司) China Resources Cement (Tianyang) Holdings Limited	HK	April 3, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(華潤水泥(田陽)有限公司) China Resources Cement (Tianyang) Limited ("Tianyang Cement") ⁽²⁾	Chinese Mainland	July 18, 2008	HK\$254,660,000	N/A	N/A	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(武宣)控股有限公司) China Resources Cement (Wuxuan) Holdings Limited	HK	April 2, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(華潤水泥(武宣)有限公司) China Resources Cement (Wuxuan) Limited ("Wuxuan Cement") ⁽²⁾	Chinese Mainland	June 26, 2008	HK\$50,000,000	N/A	N/A	100%	100%	100%	Manufacture and sale of cement
(華潤水泥(漳州)有限公司) China Resources Cement (Zhangzhou) Limited ("Zhangzhou Cement") ⁽²⁾	Chinese Mainland	July 7, 2008	US\$2,100,000	N/A	N/A	100%	100%	100%	Manufacture and sale of cement
(華潤水泥財務有限公司) China Resources Cement Finance Limited ⁽¹⁾	British Virgin Islands	November 5, 2004	US\$1	100%	100%	100%	100%	100%	Group financing
(華潤水泥控股(香港)有限公司) China Resources Cement Holdings (Hong Kong) Limited	HK	February 4, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investments in subsidiaries
(華潤水泥投資有限公司) China Resources Cement Investments Limited ("Cement Investments") ⁽²⁾	Chinese Mainland	July 18, 2004	US\$30,000,000	100%	100%	100%	100%	100%	Holding investments in subsidiaries and sale of cement
(華潤水泥有限公司) China Resources Cement Limited ("CR Cement") ⁽¹⁾	British Virgin Islands	May 8, 1997	US\$2	100%	100%	100%	100%	100%	Holding investments in subsidiaries
(華潤混凝土(北海)有限公司) China Resources Concrete (Beihai) Limited ("Beihai Concrete") ⁽²⁾	Chinese Mainland	November 30, 2005	HK\$20,000,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete
(東莞華潤豐誠混凝土有限公司) China Resources Concrete (Dongguan Fengcheng) Limited ("Dongguan Fengcheng Concrete") ⁽²⁾	Chinese Mainland	September 29, 2006	HK\$20,000,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete

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Subsidiaries	Place of incorporation/ establishment/ registration	Date of incorporation/ establishment/ registration	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group						Principal activities
				At December 31,			At June 30,	At date of report		
				2006	2007	2008	2009			
(華潤混凝土(防城港)有限公司) China Resources Concrete (Fangchenggang) Limited (“Fangchenggang Concrete”) ⁽²⁾	Chinese Mainland	August 29, 2006	HK\$12,500,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete	
(封開華潤混凝土有限公司) China Resources Concrete (Fengkai) Limited (“Fengkai Concrete”) ⁽²⁾	Chinese Mainland	November 21, 2008	RMB3,000,000	N/A	N/A	N/A	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(佛山)有限公司) China Resources Concrete (Foshan) Co. Limited (“Foshan Concrete”) ⁽²⁾	Chinese Mainland	August 2, 2005	HK\$20,000,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(福建)有限公司) China Resources Concrete (Fujian) Limited (“Fujian Concrete”) ⁽²⁾	Chinese Mainland	June 10, 2008	HK\$26,000,000	N/A	N/A	100%	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(福州)有限公司) China Resources Concrete (Fuzhou) Limited (“Fuzhou Concrete”) ⁽²⁾	Chinese Mainland	September 27, 2007	HK\$21,000,000	N/A	100%	100%	100%	100%	Manufacture and sale of concrete	
(福州開發區華潤混凝土有限公司) China Resources Concrete (Fuzhou Development Zone) Limited (“Fuzhou Development Zone”) ⁽²⁾	Chinese Mainland	July 27, 2007	HK\$20,000,000	N/A	100%	100%	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(廣西)有限公司) China Resources Concrete (Guangxi) Limited (“Guangxi Concrete”) ⁽²⁾	Chinese Mainland	August 16, 2006	HK\$34,000,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(貴港)有限公司) China Resources Concrete (Guigang) Limited (“Guigang Concrete”) ⁽²⁾	Chinese Mainland	July 2, 2008	HK\$25,000,000	N/A	N/A	100%	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(高要)有限公司) China Resources Concrete (Gaoyao) Limited (“Gaoyao Concrete”) ⁽²⁾	Chinese Mainland	March 13, 2009	HK\$20,000,000	N/A	N/A	N/A	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(江門)有限公司) China Resources Concrete (Jiangmen) Limited (“Jiangmen Concrete”) ⁽²⁾	Chinese Mainland	June 30, 2006	HK\$20,000,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete	
(江門華潤混凝土棠下有限公司) China Resources Concrete (Jiangmen Tangxia) Limited (“Jiangmen Tangxia Concrete”) ⁽²⁾	Chinese Mainland	December 3, 2007	HK\$20,000,000	N/A	100%	100%	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(柳州)有限公司) China Resources Concrete (Liuzhou) Limited (“Liuzhou Concrete”) ⁽²⁾	Chinese Mainland	November 21, 2007	HK\$20,000,000	N/A	100%	100%	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(來賓)有限公司) China Resources Concrete (Laibin) Limited (“Laibin Concrete”) ⁽²⁾	Chinese Mainland	April 2, 2009	HK\$20,000,000	N/A	N/A	N/A	100%	100%	Manufacture and sale of concrete	
(華潤混凝土(南寧)有限公司) China Resources Concrete (Nanning) Limited (“Nanning Concrete”) ⁽²⁾	Chinese Mainland	January 19, 2004	HK\$20,000,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete	
(南寧華潤青秀混凝土有限公司) China Resources Concrete (Nanning Qingxiu) Limited (“Nanning Qingxiu Concrete”) ⁽²⁾	Chinese Mainland	June 18, 2008	HK\$34,000,000	N/A	N/A	100%	100%	100%	Manufacture and sale of concrete	
(南寧華潤西鄉塘混凝土有限公司) China Resources Concrete (Nanning Xixiangtang) Limited (“Nanning Xixiangtang Concrete”) ⁽²⁾	Chinese Mainland	July 28, 2005	HK\$20,000,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete	

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				At December 31,			At June 30,	At date of report	
				2006	2007	2008	2009		
(華潤混凝土(欽州)有限公司) China Resources Concrete (Qinzhou) Limited (“Qinzhou Concrete”) ⁽²⁾	Chinese Mainland	April 24, 2007	HK\$20,000,000	N/A	100%	100%	100%	100%	Manufacture and sale of concrete
(深圳華潤混凝土有限公司) China Resources Concrete (Shenzhen) Company Limited (“Shenzhen Concrete”) ⁽²⁾	Chinese Mainland	March 26, 2002	RMB25,000,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete
(華潤混凝土(肇慶)有限公司) China Resources Concrete (Zhaoqing) Limited (“Zhaoqing Concrete”) ⁽²⁾	Chinese Mainland	February 3, 2008	HK\$20,000,000	N/A	N/A	100%	100%	100%	Manufacture and sale of concrete
(華潤混凝土有限公司) China Resources Concrete Limited ⁽¹⁾	British Virgin Islands	April 29, 1997	US\$1,000	100%	100%	100%	100%	100%	Holding investments in subsidiaries
(華潤東莞水泥廠控股有限公司) China Resources Dongguan Cement Manufactory Holdings Limited (“Dongguan Cement Holdings”)	HK	January 25, 1994	HK\$150,000,000	100%	100% (Note g)	100%	100%	100%	Holding investment in a subsidiary and trading of cement
(東莞華潤混凝土有限公司) China Resources Dongguan Concrete Co., Limited (“Dongguan Concrete”) ⁽²⁾	Chinese Mainland	June 24, 2002	HK\$20,000,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete
(封開華潤礦業有限公司) China Resources Fengkai Quarry Limited (“Fengkai Quarry”) ⁽²⁾	Chinese Mainland	August 21, 2008	RMB100,000	N/A	N/A	100%	100%	100%	Inactive
(晴朗投資有限公司) Clear Bright Investments Limited (“Clear Bright”)	British Virgin Islands	January 8, 2003	US\$2	100%	100% (Note f)	100%	100%	100%	Holding investments in subsidiaries
(東莞華潤水泥廠有限公司) Dongguan Huarun Cement Manufactory Company Limited (“Dongguan Huarun Cement”) ⁽²⁾	Chinese Mainland	May 23, 1994	HK\$199,000,000	100%	100% (Note g)	100%	100%	100%	Manufacture and sale of cement
Eurolink Resources Limited	British Virgin Islands	March 6, 2006	HK\$10,000	N/A	N/A	100% (Note n)	100%	100%	Holding investments in subsidiaries
(思耀有限公司) Flavour Glory Limited (“Flavour Glory”)	British Virgin Islands	January 2, 2003	US\$2	100%	100% (Note a)	100%	100%	100%	Holding investments in subsidiaries
(佛山華潤順安混凝土有限公司) Foshan China Resources Shunan Concrete Limited (“Foshan Shunan Concrete”) ⁽²⁾	Chinese Mainland	February 27, 2002	US\$2,420,000	100%	100%	100%	100%	100%	Manufacture and sale of concrete
(豐誠有限公司) Full Sincere Limited	British Virgin Islands	January 2, 2003	US\$2	100%	100%	100%	100%	100%	Holding investments in subsidiaries
(振虹投資有限公司) Golden Rocket Investment Limited	HK	November 26, 2007	HK\$1,000	N/A	N/A	100% (Note n)	100%	100%	Inactive

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				At December 31,			At June 30,	At date of report	
				2006	2007	2008	2009		
(佳績投資有限公司) Goodsales Investments Limited	British Virgin Islands	January 2, 2003	US\$2	100%	100%	100%	100%	100%	Holding investment in a subsidiary
(廣西華潤紅水河水泥有限公司) Guangxi China Resources Hongshuihe Cement Co., Ltd. (“Hongshuihe Cement”) ⁽³⁾	Chinese Mainland	December 24, 2001	RMB200,000,000	91.8% (Note c)	91.8% (Note c)	91.8%	91.8%	91.8%	Manufacture and sale of cement
(廣西華潤紅水河碼頭倉儲有限公司) Guangxi China Resources Hongshuihe Pier Store Limited (“Hongshuihe Pier Store”) ⁽³⁾	Chinese Mainland	July 24, 2002	RMB2,000,000	90.9% (Note d)	90.9% (Note d)	90.9%	N/A (Note o)	N/A (Note o)	Property holding
(廣西紅水河水泥股份有限公司) Guangxi Hongshuihe Cement Joint Stock Company Limited (“Hongshuihe Joint Stock”) ⁽⁴⁾	Chinese Mainland	October 22, 1996	RMB305,256,700	72.8% (Note b)	72.8%	72.8%	72.8%	72.8%	Holding investment in an associate
Hentex Resources Limited	British Virgin Islands	January 2, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(河源華潤鵬源混凝土有限公司) Heyuan China Resources Pengyuan Concrete Limited (“Heyuan Concrete”) ⁽²⁾	Chinese Mainland	November 10, 2006	RMB22,000,000	N/A (Note m)	100%	100%	100%	100%	Manufacture and sale of concrete
(康達資源有限公司) Hongda Resources Limited	British Virgin Islands	February 19, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investments in subsidiaries
Kenetic Resources Limited	British Virgin Islands	August 30, 2007	US\$2	N/A	N/A	100% (Note n)	100%	100%	Holding investments in subsidiaries
Mingo Resources Limited	British Virgin Islands	July 3, 2003	HK\$200	N/A	N/A	100% (Note n)	100%	100%	Holding investments in subsidiaries
Rossa Resources Limited	British Virgin Islands	January 2, 2008	HK\$10,000	N/A	N/A	100%	100%	100%	Holding investment in a subsidiary
(汕頭水泥有限公司) Shantou Cement Limited (“Shantou Cement”) ⁽²⁾	Chinese Mainland	March 31, 1994	RMB210,000,000	N/A	N/A	100% (Note k)	100%	100%	Manufacture and sale of cement
(深圳華潤生成混凝土有限公司) Shenzhen China Resources Shengcheng Concrete Limited (“Shengcheng Concrete”) ⁽²⁾	Chinese Mainland	July 24, 2003	RMB20,000,000	100%	100%	100%	100%	100%	Inactive
(深圳華潤文偉混凝土有限公司) Shenzhen China Resources Wenwei Concrete Limited (“Wenwei Concrete”) ⁽²⁾	Chinese Mainland	April 12, 2001	RMB20,000,000	100%	100%	100%	100%	100%	Inactive
Sinocan Resources Limited ⁽¹⁾	British Virgin Islands	September 24, 2007	HK\$2	N/A	100%	100%	100%	100%	Inactive
Smartec Resources Limited	British Virgin Islands	July 9, 2007	HK\$10,000	N/A	N/A	100% (Note n)	100%	100%	Holding investments in subsidiaries
(泰科投資有限公司) Tayford Investments Limited	HK	November 28, 2007	HK\$1,000	N/A	N/A	100% (Note n)	100%	100%	Holding investment in a subsidiary

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				At December 31,			At June 30,	At	
				2006	2007	2008	2009	date of report	
Tino Investments Limited	British Virgin Islands	October 28, 1999	US\$1	N/A	N/A	100% (Note k)	100%	100%	Holding investment in a subsidiary
Top Dragon Resources Limited	British Virgin Islands	November 20, 2007	HK\$10,000	N/A	N/A	100% (Note n)	100%	100%	Holding investment in a subsidiary
Tricot Limited (“Tricot”)	British Virgin Islands	July 1, 2003	US\$1	100%	100%	100%	100%	100%	Inactive
(湛江華潤紅水河水泥有限公司) Zhanjiang China Resources Hongshuihe Cement Company Limited (“Zhanjiang Cement”) ⁽³⁾	Chinese Mainland	March 3, 2003	HK\$22,000,000	64.3% (Note e)	94.3% (Note e)	100% (Note e)	100%	100%	Manufacture and sale of cement
Rich Team Resources Limited and its subsidiaries (“Rich Team Group”)									
Bigwood Limited	HK	June 21, 1998	HK\$20	100%	100% (Note h)	100% (Note h)	100%	100%	Inactive
Britscore Properties Limited	British Virgin Islands	January 6, 2000	US\$1	100%	100% (Note h)	100% (Note h)	100%	100%	Inactive
(好進有限公司) Cheer Forward Limited	HK	April 26, 2002	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Inactive
Dynashare Investments Limited	British Virgin Islands	July 18, 2000	US\$1	100%	100% (Note h)	100% (Note h)	100%	100%	Inactive
Falcon Strength Limited	British Virgin Islands	January 6, 2000	US\$1	100%	100% (Note h)	100% (Note h)	100%	100%	Inactive
(銳致有限公司) First Route Limited	HK	January 9, 1996	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Property holding
(金得旺有限公司) General Perfect Limited	HK	May 16, 1989	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Property holding
(喜升有限公司) Hasing Limited	HK	March 5, 1996	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Holding investment in a subsidiary
Maple Hall International Limited	British Virgin Islands	January 6, 2000	US\$1	100%	100% (Note h)	100% (Note h)	100%	100%	Inactive
New Age Resources Limited	British Virgin Islands	March 18, 1996	US\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Inactive
New Age Worldwide Limited	British Virgin Islands	March 18, 1996	US\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Inactive
(貴就發展有限公司) Profit Success Development Limited	HK	May 22, 1987	HK\$10,000	100%	100% (Note h)	100% (Note h)	100%	100%	Property holding
(太旺有限公司) Prosper Supreme Limited	HK	March 5, 1996	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Holding investment in a subsidiary
(品質管制顧問有限公司) Quality Control Consultants Limited	HK	September 27, 1985	HK\$200,000	100%	100% (Note h)	100% (Note h)	100%	100%	Concrete testing and consultancy services
(中港煤灰有限公司) Redland Ash Limited	HK	June 25, 1996	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Trading of fly ash
(中港水泥系列有限公司) Redland Cement Connections Limited (formerly Redland Concrete Connections Limited (中港建材系列有限公司))	HK	August 15, 1996	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Trading of cements
(中港混凝土有限公司) Redland Concrete Limited (“Redland Concrete”)	HK	February 28, 1986	HK\$10	100%	100% (Note h)	100% (Note h)	100%	100%	Manufacture and sale of concrete

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				At December 31,			At June 30,	At date of report	
				2006	2007	2008	2009		
(中港物料供應有限公司) Redland Construction Materials Limited	HK	May 27, 1988	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Trading of construction materials
(中港沙漿有限公司) Redland Mortars Limited	HK	August 8, 1986	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Trading of mortars
(中港噴漿有限公司) Redland Shotcrete Limited	HK	October 8, 1997	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Trading of shotcrete
(富添資源有限公司) Rich Team Resources Limited (“Rich Team”)	HK	October 30, 2007	US\$1	N/A	100% (Note h)	100% (Note h)	100%	100%	Holding investments in subsidiaries
(大盛利投資有限公司) Standard Wealth Investment Limited	HK	May 26, 1999	HK\$2	100%	100% (Note h)	100% (Note h)	100%	100%	Property holding
China Resources Precast Concrete Limited and its subsidiaries (“Precast Group”)									
(華潤預製混凝土有限公司) China Resources Precast Concrete Limited (“CR Precast”)	British Virgin Islands	December 14, 2005	US\$ 1,000	100%	N/A (Note i)	N/A	N/A	N/A	Holding investments in subsidiaries
(東莞中威預製混凝土有限公司) Dongguan Redland Precast Concrete Products Limited (“Dongguan Precast”) ⁽²⁾	Chinese Mainland	June 12, 2000	HK\$12,800,000	100%	N/A (Note i)	N/A	N/A	N/A	Manufacture and sale of precast products
Joyce Ocean Limited (“Joyce Ocean”)	British Virgin Islands	September 17, 1999	US\$50,000	N/A (Note j)	N/A	N/A	N/A	N/A	Inactive
(中港混凝土(中國)有限公司) Redland Concrete (China) Limited	HK	March 23, 1998	HK\$2	100%	N/A (Note i)	N/A	N/A	N/A	Holding of barge
Redland-GRC Joint Venture Limited	HK	August 15, 1997	HK\$100	100%	N/A (Note i)	N/A	N/A	N/A	Inactive
Redland Precast Concrete Products (Macau) Limited	Macau	April 25, 2005	MOP25,000	100%	N/A (Note i)	N/A	N/A	N/A	Manufacture and sale of precast concrete products
(中威預製混凝土產品有限公司) Redland Precast Concrete Products Limited	HK	July 25, 1991	HK\$70,000,000	100%	N/A (Note i)	N/A	N/A	N/A	Manufacture and sale of precast concrete products
Redland Precast Concrete Products Pte Limited (“Precast Singapore”)	Singapore	March 24, 1998	SGD\$100,000	100%	N/A (Note i)	N/A	N/A	N/A	Inactive
(中港石礦有限公司) Redland Quarries Limited	HK	November 10, 1987	HK\$2	100%	N/A (Note i)	N/A	N/A	N/A	Holding of tug boat
(信基物流有限公司) Sinoking Logistics Limited	HK	December 17, 2003	HK\$2	100%	N/A (Note i)	N/A	N/A	N/A	Holding of barge
(華僑船務有限公司) Sinoking Shipping Limited	HK	December 1, 2003	HK\$2	100%	N/A (Note i)	N/A	N/A	N/A	Holding of barge
Wealth Trinity Limited	British Virgin Islands	March 15, 1999	US\$30,000	100%	N/A (Note i)	N/A	N/A	N/A	Inactive
Associate									
Man Wah Quarry Limited (“Man Wah”) ⁽⁴⁾	HK	November 20, 1984	HK\$100,000	50%	50%	50%	50%	50%	Inactive

⁽¹⁾ These companies are directly held by the Company.

⁽²⁾ These companies were established in the Chinese Mainland in the form of wholly foreign-owned enterprise.

⁽³⁾ These companies were established in the Chinese Mainland in the form of sino-foreign equity joint venture enterprise.

⁽⁴⁾ The Group holds 50% of the issued share capital of Man Wah and appoints 1 out of 5 directors on the board of directors of Man Wah. The directors of the Company can only able to exercise significant influence over Man Wah and therefore it was classified as an associate of the Group during the Track Record Period.

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Notes:

- (a) On December 28, 2007, the Group transferred the entire issued shares in Flavour Glory, a wholly-owned subsidiary of the Group, to Smooth Concept, the immediate holding company of the Company, at a consideration of HK\$229 million. On June 30, 2008, Smooth Concept transferred back the entire interest in Flavour Glory to the Group at a consideration of HK\$245 million. Flavour Glory and the Company are ultimately controlled by CRH before and after the transfers of interest in Flavour Glory. For the purpose of this report, the Group's equity interest in Flavour Glory as at December 31, 2007 was considered as 100% after taking into consideration the subsequent transfer-in and applying the principles of merger accounting.
- (b) On August 10, 2006, the Group acquired 0.7% shareholding of Hongshuihe Joint Stock, at a consideration of RMB2 million from a third party. On September 30, 2006, several minority shareholders withdrew their initial capital injections, amounted to RMB19 million, and thus the Group had a deemed acquisition of 4.2% of the equity interest in Hongshuihe Joint Stock. By combination of the above transactions, the Group's equity interest in Hongshuihe Joint Stock increased from 67.9% as at December 31, 2005 to 72.8% as at December 31, 2006 or by 4.9% during the year ended December 31, 2006.
- (c) As stated in note (b) above, the Group's equity interest in Hongshuihe Joint Stock increased by 4.9% in September 2006. Hongshuihe Joint Stock indirectly held 30% equity interest in Hongshuihe Cement. Hongshuihe Cement was also a 70% owned subsidiary of Flavour Glory. Therefore, the Group's equity interest in Hongshuihe Cement increased from 90.4% as at December 31, 2005 to 91.8% as at December 31, 2006 or by 1.5% during the year ended December 31, 2006.

As stated in note (a) above, the Group's equity interest in Flavour Glory as at December 31, 2007 was considered as 100%. As a result, the Group's equity interest in Hongshuihe Cement as at December 31, 2007 was considered as 91.8%.

- (d) As stated in notes (b) and (c) above, the Group's equity interest in Hongshuihe Cement and Hongshuihe Joint Stock increased by 1.5% and 4.9%, respectively, in September 2006. 95% equity interest of Hongshuihe Pier Store was held by Hongshuihe Cement and 5% equity interest of Hongshuihe Pier Store was held by Hongshuihe Joint Stock. Therefore, the Group's equity interest in Hongshuihe Pier Store increased from 89.3% as at December 31, 2005 to 90.9% as at December 31, 2006 or by 1.6% during the year ended December 31, 2006.

As stated in note (c) above, the Group's equity interest in Hongshuihe Cement as at December 31, 2007 was considered as 91.8%. As a result, the Group's equity interest in Hongshuihe Pier Store as at December 31, 2007 was considered as 90.9%.

- (e) As stated in note (c) above, the Group's equity interest in Hongshuihe Cement increased by 1.5% in October 2006. As a result, the Group's equity interest in Zhanjiang Cement increased from 63.3% as at December 31, 2005 to 64.3% as at December 31, 2006 or by 1.0% during the year ended December 31, 2006.

On January 20, 2007, one wholly-owned subsidiary of the Group acquired 30% equity interest in Zhanjiang Cement from a minority shareholder at a consideration of RMB8 million. As a result, the Group's equity interest in Zhanjiang Cement increased from 64.3% as at December 31, 2006 to 94.3% as at December 31, 2007 or by 30.0% immediately after the acquisition. As stated in note (c) above, the Group's equity interest in Hongshuihe Cement as at December 31, 2007 was considered as 91.8%. As a result, the Group's equity interest in Zhanjiang Cement as at December 31, 2007 was considered as 94.3%.

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On March 10, 2008, 70% equity interest in Zhanjiang Cement was transferred from Hongshuihe Cement to Cement Investments. Since Hongshuihe Cement is not wholly-owned by the Group but Cement Investments is a wholly-owned subsidiary of the Group, the Group had a deemed acquisition of 5.7% equity interest in Zhanjiang Cement. Thus, the Group's effective equity interest in Zhanjiang Cement as at December 31, 2008 was considered as 100%.

- (f) On December 28, 2007, the Group transferred the entire issued shares in Clear Bright, a wholly-owned subsidiary of the Group, to Smooth Concept, at a consideration of HK\$58 million. On June 30, 2008, Smooth Concept transferred back the entire interests in Clear Bright to the Group at a consideration of HK\$71 million. Clear Bright and the Company are ultimately controlled by CRH before and after the transfers of interest in Clear Bright. For the purpose of this report, the Group's equity interest in Clear Bright as at December 31, 2007 was considered as 100% after taking into consideration the subsequent transfer-in and applying the principles of merger accounting.
- (g) Dongguan Cement Holdings and Dongguan Huarun Cement are the wholly-owned subsidiaries of Clear Bright since their incorporation/establishment. As stated in note (f) above, the Group's equity interest in Clear Bright as at December 31, 2007 was considered as 100%. As a result, the Group's effective equity interests in both Dongguan Cement Holdings and Dongguan Huarun Cement as at December 31, 2007 were considered as 100%.
- (h) On December 4, 2007, the Group entered into an agreement to dispose of the entire issued share capital of Redland Concrete to China Resources Gas Group Limited (formerly known as China Resources Logic Limited) ("CR Gas"), a subsidiary of CRH, for a cash consideration of HK\$218 million. The disposal was completed on March 5, 2008.

On December 31, 2008, the Group acquired back the entire issued share capital of Rich Team, the parent company of Redland Concrete, from CR Gas at a cash consideration of HK\$305 million. Rich Team Group and the Company are ultimately controlled by CRH before and after the transfers of interest in Rich Team Group. The Group's equity interest in Rich Team was considered to be 100% throughout the years ended December 31, 2007 and 2008 except for interests in CR Gas that are not held by CRH during the period from March 5, 2008 to December 31, 2008, which are accounted for as minority interests, after taking into consideration the subsequent transfer-back of the entire issued share capital of Rich Team to the Group and applying the principles of merger accounting.
- (i) On December 28, 2007, the Group entered into an agreement to dispose of the entire issued shares in CR Precast to Smooth Concept, at a consideration of HK\$1. The disposal was completed on December 28, 2007.
- (j) Joyce Ocean was struck off in 2006.
- (k) On April 2, 2008, the Group entered an agreement to acquire Tino Investments Limited from a third party not related to the Group, at a consideration of RMB96 million. China Cement Company (Shantou) Limited and Shantou Cement are acquired by the Group through the acquisition of Tino Investments Limited.
- (l) On September 27, 2007, the Group acquired Fuzhou Cement from a third party not related to the Group, at a consideration of RMB20 million.
- (m) On October 28, 2007, the Group acquired Heyuan Concrete from a third party not related to the Group, at a consideration of RMB17 million after netting of RMB10 million, which represented the amount waived by the vendor due to the acceptance of certain liabilities of Heyuan Concrete by the Group.

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- (n) Eurolink Resources Limited, Kenetic Resources Limited, Mingo Resources Limited, Smartec Resources Limited and Top Dragon Resources Limited were acquired by the Group on June 30, 2008 from Smooth Concept, at a consideration of HK\$10,000, US\$2, HK\$200, HK\$10,000 and HK\$10,000, respectively. All these companies were acquired by Smooth Concept from third parties not related to the Group in 2008. On January 1, 2008, Golden Rocket Investment Limited and Tayford Investments Limited were acquired by the Group from a third party not related to the Group at a consideration of HK\$1.
- (o) The Group entered into an agreement to dispose of the entire equity interest in Hongshuihe Pier Store at a consideration of RMB138 million on December 2, 2008 and the disposal was completed on April 6, 2009.

All of the above subsidiaries and associate are limited liability companies established in their respective place of incorporation/establishment and adopt December 31, as the financial year end date.

The statutory financial statements of the subsidiaries and associate for the Track Record Period, or since their respective dates of incorporation/establishment, where this is a shorter period, were prepared in accordance with relevant accounting principles and financial regulations applicable to their respective jurisdictions and were audited by Deloitte Touche Tohmatsu except for the followings:

Name	Financial period	Auditors#
Beihai Concrete	For each of the two years ended December 31, 2007	(廣西天辰會計師事務所有限公司) (Guangxi Tianchen Certified Public Accountants Co. Ltd.)
	For the year ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Cement Investments	For each of the two years ended December 31, 2007	(深圳畢德安華會計師事務所) (Shenzhen Bide Anhua Certified Public Accountants)
	For the year ended December 31, 2008	(開元信德會計師事務所有限公司) (Carea Schinda Certified Public Accountants)
Dongguan Concrete	For each of the three years ended December 31, 2008	(東莞市華聯會計師事務所有限公司) (Dongguan Hualian Certified Public Accountants Co. Ltd.)
Dongguan Fengcheng Concrete	From September 29, 2006 (date of establishment) to December 31, 2006 and for each of the two years ended December 31, 2008	(東莞市華聯會計師事務所有限公司) (Dongguan Hualian Certified Public Accountants Co. Ltd.)
Dongguan Huarun Cement	For each of the three years ended December 31, 2008	(東莞市德信康會計師事務所) (Dongguan Discran Certified Public Accountants)
Dongguan Precast	For each of the two years ended December 31, 2007	(廣東正量會計師事務所有限公司) (Guangdong Zhengliang Certified Public Accountants)

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Name	Financial period	Auditors#	
Fangchenggang Cement	For the year ended December 31, 2006	(廣西起元聯合會計師事務所) (Gx. Qiun Accountants Fm.)	
	For each of the two years ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)	
Fangchenggang Concrete	From August 29, 2006 (date of establishment) to December 31, 2006	(廣西天辰會計師事務所有限公司) (Guangxi Tianchen Certified Public Accountants Co. Ltd.)	
	For the year ended December 31, 2007	(廣西佳海會計師事務所有限公司) (Guangxi Jiahai Accountant Affairs Office Co. Ltd.)	
	For the year ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)	
Fengkai Cement	From August 14, 2007 (date of establishment) to December 31, 2007	(廣東肇慶中鵬會計師事務所有限公司) (Guangdong Zhaoqing Zhongpeng Certified Public Accountants Co., Ltd.)	
	For the year ended December 31, 2008	(開元信德會計師事務所有限公司) (Carea Schinda Certified Public Accountants)	
Fengkai Concrete	From November 21, 2008 (date of establishment) to December 31, 2008	(開元信德會計師事務所有限公司) (Carea Schinda Certified Public Accountants)	
Fengkai Quarry	From August 21, 2008 (date of establishment) to December 31, 2008	(廣東肇慶中鵬會計師事務所有限公司) (Guangdong Zhaoqing Zhongpeng Certified Public Accountants Co., Ltd.)	
Foshan Concrete	For the year ended December 31, 2006	(佛山市立為會計師事務所有限公司) (Foshan Liwei Certified Public Accountants Limited Company)	
	For the year ended December 31, 2007	(廣東天華華粵會計師事務所有限公司佛山分所) (Tin Wha Huayue CPAs. Foshan Guangdong)	
	For the year ended December 31, 2008	(佛山市廣華會計師事務所) (Foshan GuangHua Certified Public Accountants)	
Foshan Shunan Concrete	For the year ended December 31, 2006	(佛山市立為會計師事務所有限公司) (Foshan Liwei Certified Public Accountants Limited Company)	
	For the year ended December 31, 2007	(廣東天華華粵會計師事務所有限公司佛山分所) (Tin Wha Huayue CPAs. Foshan Guangdong)	
	For the year ended December 31, 2008	(佛山市廣華會計師事務所) (Foshan GuangHua Certified Public Accountants)	

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Name	Financial period	Auditors#
Fuchuan Cement	From May 9, 2008 (date of establishment) to December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Fujian Concrete	From June 10, 2008 (date of establishment) to December 31, 2008	(福州東祥會計師事務所有限公司) (Fuzhou Dongxiang Certified Public Accountants Co., Ltd.)
Fuzhou Cement	For each of the two years ended December 31, 2008 (Note a)	(福建弘華會計師事務所有限公司) (Fujian Honghua Certified Public Accountants Co., Ltd.)
Fuzhou Concrete	From September 27, 2007 (date of establishment) to December 31, 2007 and for the year ended December 31, 2008	(福建弘華會計師事務所有限公司) (Fujian Honghua Certified Public Accountants Co., Ltd.)
Fuzhou Development Zone	From July 27, 2007 (date of establishment) to December 31, 2007 and for the year ended December 31, 2008	(福建弘華會計師事務所有限公司) (Fujian Honghua Certified Public Accountants Co., Ltd.)
Gaoyao Concrete	(Note b)	N/A
Guangxi Concrete	From August 16, 2006 (date of establishment) to December 31, 2006	(廣西天辰會計師事務所有限公司) (Guangxi Tianchen Certified Public Accountants Co. Ltd.)
	For the year ended December 31, 2007	(廣西起元聯合會計師事務所) (Gx. Qiun Accountants Fm.)
	For the year ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Guigang Cement	For each of the two years ended December 31, 2007	(深圳大公會計師事務所) (Shenzhen Dagong Certified Public Accountants)
	For the year ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Guigang Concrete	From July 2, 2008 (date of establishment) to December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Guiping Cement	From May 26, 2008 (date of establishment) to December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Hepu Cement	(Note b)	N/A
Heyuan Concrete	For the year ended December 31, 2007 (Note a)	(廣州海正會計師事務所有限公司) (Guangzhou Haizheng Certified Public Accountants Co., Ltd.)
	For the year ended December 31, 2008	(河源市南宏會計師事務所) (He Yuan Nan Hong Certified Public Accountants)

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Name	Financial period	Auditors#
Hongshuihe Cement	For the year ended December 31, 2006	(廣西起元聯合會計師事務所) (Gx. Qiun Accountants Fm.)
	For each of the two years ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Hongshuihe Joint Stock	For the year ended December 31, 2006	(廣西同德會計師事務所有限責任公司) (Guangxi Tongde Certified Public Accountants)
	For the year ended December 31, 2007	(廣西正則會計師事務所有限責任公司) (Guangxi Zhengze Certified Public Accountants)
	For the year ended December 31, 2008	(廣西同德會計師事務所有限責任公司) (Guangxi Tongde Certified Public Accountants)
Hongshuihe Pier Store	For the year ended December 31, 2006	(廣西起元聯合會計師事務所) (Gx. Qiun Accountants Fm.)
	For each of the two years ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Jiangmen Concrete	From June 30, 2006 (date of establishment) to December 31, 2006 and for each of the two years ended December 31, 2008	(江門市新會志尚會計師事務所有限公司) (Jiangmen Xinhui Zhishang Certified Public Accountants)
Jiangmen Tangxia Concrete	From December 3, 2007 (date of establishment) to December 31, 2007 and for the year ended December 31, 2008	(江門市新會志尚會計師事務所有限公司) (Jiangmen Xinhui Zhishang Certified Public Accountants)
Laibin Concrete	(Note b)	N/A
Liuzhou Concrete	From November 21, 2007 (date of establishment) to December 31, 2007	(北京華通鑒會計師事務所廣西分所) (Beijing Huatongjian Certified Public Accountants Co., Ltd. Guangxi Branch)
	For the year ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Longyan Cement	(Note b)	N/A
Luchuan Cement	From July 28, 2008 (date of establishment) to December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Nanning Cement	For the year ended December 31, 2006	(廣西起元聯合會計師事務所) (Gx. Qiun Accountants Fm.)
	For each of the two years ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)

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Name	Financial period	Auditors#
Nanning Concrete	For the year ended December 31, 2006	(廣西天辰會計師事務所有限公司) (Guangxi Tianchen Certified Public Accountants Co. Ltd.)
	For the year ended December 31, 2007	(廣西起元聯合會計師事務所) (Gx. Qiun Accountants Fm.)
	For the year ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Nanning Qingxiu Concrete	From June 18, 2008 (date of establishment) to December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Nanning Xixiangtang Concrete	For the year ended December 31, 2006	(廣西天辰會計師事務所有限公司) (Guangxi Tianchen Certified Public Accountants Co. Ltd.)
	For the year ended December 31, 2007	(廣西起元聯合會計師事務所) (Gx. Qiun Accountants Fm.)
	For the year ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Pingnan Cement	For the year ended December 31, 2006	(廣西起元聯合會計師事務所) (Gx. Qiun Accountants Fm.)
	For each of the two years ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Precast Singapore	For each of the two years ended December 31, 2007	Kwan Wong Tan & Hong Certified Public Accountants
Qinzhou Concrete	From April 24, 2007 (date of establishment) to December 31, 2007	(廣西起元聯合會計師事務所) (Gx. Qiun Accountants Fm.)
	For the year ended December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Shangsi Cement	From January 15, 2008 (date of establishment) to December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Shantou Cement	For the year ended December 31, 2008 (Note c)	(開元信德會計師事務所有限公司) (Care Schinda Certified Public Accountants)
Shengcheng Concrete	For each of the two years ended December 31, 2007	(深圳永信瑞和會計師事務所) (Shenzhen Yongxinruihe Certified Public Accountants)
	For the year ended December 31, 2008	(開元信德會計師事務所有限公司) (Care Schinda Certified Public Accountants)

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Name	Financial period	Auditors#
Shenzhen Concrete	For each of the two years ended December 31, 2007	(深圳永信瑞和會計師事務所) (Shenzhen Yongxinruihe Certified Public Accountants)
	For the year ended December 31, 2008	(開元信德會計師事務所有限公司) (Carea Schinda Certified Public Accountants)
Tianyang Cement	From July 18, 2008 (date of establishment) to December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Wenwei Concrete	For each of the two years ended December 31, 2007	(深圳永信瑞和會計師事務所) (Shenzhen Yongxinruihe Certified Public Accountants)
	For the year ended December 31, 2008	(開元信德會計師事務所有限公司) (Carea Schinda Certified Public Accountants)
Wuxuan Cement	From June 26, 2008 (date of establishment) to December 31, 2008	(廣西啟源會計師事務所有限責任公司) (Gx. Qiun Certified Public Accountants Ltd.)
Zhanjiang Cement	For each of the three years ended December 31, 2008	(湛江市信達會計師事務所有限公司) (Xinda Certified Public Accountants Co., Ltd. Zhanjiang City)
Zhangzhou Cement	From July 7, 2008 (date of establishment) to December 31, 2008	(廈門欣隆源會計師事務所有限公司) (Xiamen Xinlongyuan Certified Public Accountants Co., Ltd.)
Zhaoqing Concrete	From February 3, 2008 (date of establishment) to December 31, 2008	(佛山市廣華會計師事務所) (Foshan GuangHua Certified Public Accountants)

Notes:

- (a) Fuzhou Cement and Heyuan Concrete were newly acquired subsidiaries during the year ended December 31, 2007.
- (b) No statutory financial statements for Gaoyao Concrete, Hepu Cement, Longyan Cement and Laibin Concrete have been prepared as they have not reached their first financial reporting periods during the Track Record Period.
- (c) Shantou Cement was a newly acquired subsidiary during the year ended December 31, 2008.

These auditors are certified public accountants registered in their respective jurisdictions.

We have acted as auditor of the Company for the Track Record Period. No statutory audited financial statements have been prepared for those subsidiaries which were incorporated in the British Virgin Islands and Macau as they were incorporated in jurisdictions where there are no statutory audit requirements. The audited consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the

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"HKICPA") (the "Underlying Financial Statements"). We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements of the Company for each of the Track Record Period in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 to the Financial Information, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in this document.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are also responsible for the contents of this document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 to the Financial Information, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at December 31, 2006, December 31, 2007, December 31, 2008 and June 30, 2009 and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended June 30, 2008 together with the notes thereon (the "June 30, 2008 Financial Information") have been extracted from the Group's unaudited consolidated financial information for the same period which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the June 30, 2008 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the June 30, 2008 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 30, 2008 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 30, 2008 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with Hong Kong Financial Reporting Standards.

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A. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

	Notes	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	5	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
Other income	6	85,776	69,223	265,499	220,083	40,785
Gain on disposal of subsidiaries	43	—	391	—	—	22,399
Change in fair value of investment properties	18	—	—	55,040	—	(1,000)
Discount on acquisition of a subsidiary	42	—	2,679	—	—	—
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)
Impairment loss recognized in respect of goodwill	20	—	—	(1,301)	(1,301)	—
Finance costs	7	(100,066)	(148,215)	(123,592)	(61,543)	(85,369)
Share of result of an associate		(6)	(5)	(1)	(1)	—
Profit before taxation	8	84,757	387,765	822,848	557,827	389,592
Taxation	10	(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 operation						
(Loss) profit for the year/period from discontinued operation	14	(2,502)	2,113	—	—	—
Profit for the year/period		80,050	360,927	783,747	536,607	369,606
Other comprehensive income						
Exchange differences arising on translation of foreign operations		67,394	220,070	171,218	229,061	(4,993)
Revaluation of leasehold property upon transfer to investment property		—	—	17,810	17,810	—
Release of translation reserve upon disposal of subsidiaries		—	(2,036)	—	—	—
Other comprehensive income for the year/period		67,394	218,034	189,028	246,871	(4,993)
Total comprehensive income for the year/period		147,444	578,961	972,775	783,478	364,613
Profit for the year/period attributable to:						
Equity holders of the Company		81,954	360,253	760,924	530,353	365,663
Minority interests		(1,904)	674	22,823	6,254	3,943
		80,050	360,927	783,747	536,607	369,606
Total comprehensive income attributable to:						
Equity holders of the Company		150,369	575,133	948,130	775,385	360,631
Minority interests		(2,925)	3,828	24,645	8,093	3,982
		147,444	578,961	972,775	783,478	364,613
Earnings per share	13					
— Basic		14.6 cents	46.1 cents	97.3 cents	67.8 cents	46.8 cents
— Diluted		14.3 cents	N/A	N/A	N/A	N/A

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Consolidated Statements of Financial Position

	Notes	As at December 31,			As at June 30,
		2006	2007	2008	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non current assets					
Fixed assets	16	4,077,315	5,422,105	8,124,263	10,546,437
Prepaid lease payments	17	147,154	182,648	293,401	327,088
Investment properties	18	87,683	93,966	35,000	34,000
Intangible assets	19	101,369	113,724	137,807	136,513
Interest in an associate	22	54	49	48	48
Deposits for acquisition of an associate	22	—	—	—	305,218
Deposits for acquisition of fixed assets		89,160	26,326	73,025	79,895
Deferred tax assets	23	24,132	8,831	9,616	9,902
Long term receivables	24	—	—	118,916	161,092
		<u>4,526,867</u>	<u>5,847,649</u>	<u>8,792,076</u>	<u>11,600,193</u>
Current assets					
Inventories	25	333,936	362,488	379,789	527,986
Retention monies receivable		19,231	—	—	—
Amount due from immediate holding company	26	40,794	—	—	—
Amount due from an intermediate holding company	26	—	160,170	—	—
Amounts due from fellow subsidiaries	26	—	6,675	—	—
Trade receivables	27	557,974	649,259	638,156	625,233
Other receivables	27	270,291	247,405	316,664	383,563
Taxation recoverable		—	—	36,961	4,920
Pledged bank deposits	28	30,094	9,131	9,171	1,164,903
Cash and bank balances	29	229,976	339,013	363,590	861,950
		<u>1,482,296</u>	<u>1,774,141</u>	<u>1,744,331</u>	<u>3,568,555</u>
Assets classified as held for sale	15	—	—	157,053	—
		<u>1,482,296</u>	<u>1,774,141</u>	<u>1,901,384</u>	<u>3,568,555</u>
Current liabilities					
Trade payables	30	469,085	586,930	785,190	726,002
Other payables	30	392,604	663,389	889,235	880,663
Provisions	31	3,349	3,959	3,861	3,856
Amount due to immediate holding company	32	—	1,548,056	—	—
Amounts due to minority shareholders of subsidiaries	32	5,892	—	—	—
Amount due to a fellow subsidiary	32	—	—	10,916	—
Taxation payable		9,496	7,469	11,005	12,133
Bank loans — amount due within one year	33	1,806,439	1,185,634	2,810,763	3,897,886
		<u>2,686,865</u>	<u>3,995,437</u>	<u>4,510,970</u>	<u>5,520,540</u>
Liabilities associated with assets classified as held for sale	15	—	—	22,731	—
		<u>2,686,865</u>	<u>3,995,437</u>	<u>4,533,701</u>	<u>5,520,540</u>
Net current liabilities		<u>(1,204,569)</u>	<u>(2,221,296)</u>	<u>(2,632,317)</u>	<u>(1,951,985)</u>
Total assets less current liabilities		<u>3,322,298</u>	<u>3,626,353</u>	<u>6,159,759</u>	<u>9,648,208</u>
Non-current liabilities					
Bank loans — amount due after one year	33	1,081,426	818,647	1,686,812	4,810,987
Provisions	31	46,186	44,916	40,588	38,195
Deferred tax liabilities	23	43,212	39,457	31,115	33,169
		<u>1,170,824</u>	<u>903,020</u>	<u>1,758,515</u>	<u>4,882,351</u>
		<u>2,151,474</u>	<u>2,723,333</u>	<u>4,401,244</u>	<u>4,765,857</u>
Capital and reserves					
Share capital	35	78,179	78,179	78,179	78,179
Reserves		<u>2,042,152</u>	<u>2,617,285</u>	<u>4,288,418</u>	<u>4,649,049</u>
Equity attributable to equity holders of the Company		<u>2,120,331</u>	<u>2,695,464</u>	<u>4,366,597</u>	<u>4,727,228</u>
Minority interests		<u>31,143</u>	<u>27,869</u>	<u>34,647</u>	<u>38,629</u>
Total equity		<u>2,151,474</u>	<u>2,723,333</u>	<u>4,401,244</u>	<u>4,765,857</u>

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ACCOUNTANTS' REPORT OF THE COMPANY

Statements of Financial Position

	Notes	As at December 31,			As at June 30,
		2006	2007	2008	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non current assets					
Fixed assets	16	314	308	245	1,918
Investments in subsidiaries	21	2,399,432	3,850,413	4,088,157	4,799,938
Deposits for acquisition of fixed assets		5,243	12,943	18,630	18,630
Deferred tax assets	23	4,550	—	—	—
		<u>2,409,539</u>	<u>3,863,664</u>	<u>4,107,032</u>	<u>4,820,486</u>
Current assets					
Amount due from immediate holding company	26	40,794	—	—	—
Other receivables	27	344	563	3,248	1,889
Cash and bank balances		4,524	61,825	36,386	24,720
		<u>45,662</u>	<u>62,388</u>	<u>39,634</u>	<u>26,609</u>
Current liabilities					
Other payables	30	8,948	22,554	13,932	5,081
Amount due to immediate holding company	32	—	1,554,600	—	—
Amounts due to a fellow subsidiary	32	—	—	10,916	—
Amounts due to subsidiaries	21	43,957	21,965	1,145,612	1,829,325
Bank loans — amount due within one year	33	560,000	550,000	431,053	485,000
		<u>612,905</u>	<u>2,149,119</u>	<u>1,601,513</u>	<u>2,319,406</u>
Net current liabilities		<u>(567,243)</u>	<u>(2,086,731)</u>	<u>(1,561,879)</u>	<u>(2,292,797)</u>
Net assets		<u>1,842,296</u>	<u>1,776,933</u>	<u>2,545,153</u>	<u>2,527,689</u>
Capital and reserves					
Share capital	35	78,179	78,179	78,179	78,179
Reserves	36	1,764,117	1,698,754	2,466,974	2,449,510
Total equity		<u>1,842,296</u>	<u>1,776,933</u>	<u>2,545,153</u>	<u>2,527,689</u>

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ACCOUNTANTS’ REPORT OF THE COMPANY

Consolidated Statements of Changes in Equity

	Equity attributable to equity holders of the Company										
	Share capital	Share premium	Merger reserve	Share-based compensation reserve	Bonds reserve	Property revaluation reserve	Translation reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2006	38,186	962,125	(35,193)	11,446	90,667	—	28,864	138,518	1,234,613	44,511	1,279,124
Exchange differences	—	—	—	—	—	—	68,415	—	68,415	(1,021)	67,394
Profit for the year	—	—	—	—	—	—	—	81,954	81,954	(1,904)	80,050
Total comprehensive income for the year	—	—	—	—	—	—	68,415	81,954	150,369	(2,925)	147,444
Conversion of convertible bonds	37,144	705,728	—	—	(84,203)	—	—	24,185	682,854	—	682,854
Reversal on termination of conversion rights (Note 40(ii))	—	—	—	—	(6,464)	—	—	1,982	(4,482)	—	(4,482)
Cancellation of existing shares under the Scheme of Arrangement (Note 35(a))	(75,330)	—	—	—	—	—	—	—	(75,330)	—	(75,330)
Issue of new shares under the Scheme of Arrangement (Note 35(a))	75,330	—	—	—	—	—	—	—	75,330	—	75,330
Issue of new shares (Note 35(b))	2,849	54,128	—	—	—	—	—	—	56,977	—	56,977
Transfer of reserve (Note 40(iii))	—	—	—	(11,446)	—	—	—	11,446	—	—	—
Acquisition of additional interest in subsidiaries	—	—	—	—	—	—	—	—	—	(10,443)	(10,443)
	39,993	759,856	—	(11,446)	(90,667)	—	—	37,613	735,349	(10,443)	724,906
At December 31, 2006	78,179	1,721,981	(35,193)	—	—	—	97,279	258,085	2,120,331	31,143	2,151,474
Exchange differences	—	—	—	—	—	—	216,916	—	216,916	3,154	220,070
Release of translation reserve upon disposal of subsidiaries	—	—	—	—	—	—	(2,036)	—	(2,036)	—	(2,036)
Profit for the year	—	—	—	—	—	—	—	360,253	360,253	674	360,927
Total comprehensive income for the year	—	—	—	—	—	—	214,880	360,253	575,133	3,828	578,961
Acquisition of additional interest in subsidiaries	—	—	—	—	—	—	—	—	—	(7,102)	(7,102)
At December 31, 2007	78,179	1,721,981	(35,193)	—	—	—	312,159	618,338	2,695,464	27,869	2,723,333
Exchange differences	—	—	—	—	—	—	169,396	—	169,396	1,822	171,218
Revaluation of leasehold property upon transfer to investment property	—	—	—	—	—	17,810	—	—	17,810	—	17,810
Profit for the year	—	—	—	—	—	—	—	760,924	760,924	22,823	783,747
Total comprehensive income for the year	—	—	—	—	—	17,810	169,396	760,924	948,130	24,645	972,775
Issue of new shares (Note 35(c))	—	866,000	—	—	—	—	—	—	866,000	—	866,000
Deemed disposal of partial interest in subsidiaries through group reorganization (Note b)	—	—	—	—	—	—	—	—	—	67,875	67,875
Deemed acquisition of additional interest in subsidiaries through group reorganization (Note b)	—	—	—	—	—	—	—	—	—	(85,742)	(85,742)
Deemed distribution (Notes a & b)	—	(45,985)	—	—	—	—	—	(97,012)	(45,985)	—	(45,985)
Interim dividend paid	—	—	—	—	—	—	—	—	—	—	—
At December 31, 2008	78,179	2,541,996	(35,193)	—	—	17,810	481,555	1,282,250	4,366,597	34,647	4,401,244
Exchange differences	—	—	—	—	—	—	(5,032)	—	(5,032)	39	(4,993)
Profit for the period	—	—	—	—	—	—	—	365,663	365,663	3,943	369,606
Total comprehensive income and expenses for the period	—	—	—	—	—	—	(5,032)	365,663	360,631	3,982	364,613
At June 30, 2009	78,179	2,541,996	(35,193)	—	—	17,810	476,523	1,647,913	4,727,228	38,629	4,765,857

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ACCOUNTANTS' REPORT OF THE COMPANY

	Equity attributable to equity holders of the Company							Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	
Unaudited								
At January 1, 2008	78,179	1,721,981	(35,193)	—	312,159	618,338	2,695,464	2,723,333
Exchange differences	—	—	—	—	227,222	—	227,222	229,061
Revaluation of leasehold property upon transfer to investment property	—	—	—	17,810	—	—	17,810	17,810
Profit for the period	—	—	—	—	—	530,353	530,353	536,607
Total comprehensive income for the period	—	—	—	17,810	227,222	530,353	775,385	783,478
Issue of new shares (Note 35(c))	—	866,000	—	—	—	—	866,000	866,000
Deemed disposal of partial interest in subsidiaries through group reorganization (Note c)	—	—	—	—	—	—	—	67,875
Deemed acquisition of additional interest in subsidiaries through group reorganization (Note c)	—	—	—	—	—	—	—	(74,064)
Deemed distribution (Notes a & c)	—	—	—	—	—	(108,690)	(108,690)	(108,690)
Interim dividend paid	—	(45,985)	—	—	—	—	(45,985)	(45,985)
At June 30, 2008	78,179	2,541,996	(35,193)	17,810	539,381	1,040,001	4,182,174	4,211,947

Notes:

- (a) On December 28, 2007, the Group transferred the entire issued shares in Flavour Glory and Clear Bright to Smooth Concept at an aggregate consideration of HK\$287,833,000. On June 30, 2008, Smooth Concept transferred back the entire interest in Flavour Glory and Clear Bright to the Group, at an aggregate consideration of HK\$315,772,000. The difference amounting to HK\$27,939,000 was deemed as the distribution to Smooth Concept upon application of merger accounting.
- (b) On March 5, 2008, the Group disposed of the entire issued share capital of Redland Concrete to CR Gas at an aggregate consideration of HK\$217,758,000. On December 31, 2008, the Group acquired back the entire issued share capital of Rich Team, the parent company of Redland Concrete, from CR Gas at an aggregate consideration of HK\$304,698,000. The net difference of the consideration received/paid by the Group amounting to HK\$86,940,000, after adjusted for consolidated profit of Rich Team Group shared by the minority interests of CR Gas amounting to HK\$17,867,000 for the period from March 5, 2008 to December 31, 2008, were treated as a deemed distribution. The difference amounting to HK\$69,073,000 was deemed as the distribution to CRH upon application of merger accounting.
- (c) Upon application of merger accounting as referred to in note (b) above, the net difference of the consideration received/paid by the Group amounting to HK\$86,940,000, after adjusted for consolidated profit of Rich Team Group shared by the minority interests of CR Gas amounting to HK\$6,189,000 for the period from March 5, 2008 to June 30, 2008, were treated as a deemed distribution. The difference amounting to HK\$80,751,000 was treated as deemed as the distribution to CRH.

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ACCOUNTANTS' REPORT OF THE COMPANY

Consolidated Statements of Cash Flows

	Notes	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
Cash flows from operating activities						
Profit before taxation						
Continuing operations		84,757	387,765	822,848	557,827	389,592
Discontinued operation	14	2,290	1,729	—	—	—
		87,047	389,494	822,848	557,827	389,592
Adjustments for:						
Depreciation of fixed assets		185,704	242,558	321,364	156,202	185,203
Impairment loss recognized in respect of fixed assets		—	12,379	—	—	—
Impairment loss on other receivables		—	—	12,329	12,146	—
Amortization of mining rights		1,626	2,045	2,654	1,241	1,365
Discount on acquisition of a subsidiary	42	—	(2,679)	—	—	—
(Gain) loss on change in fair value of investment properties		—	—	(55,040)	—	1,000
Release of prepaid lease payments		3,265	4,106	6,684	3,059	3,777
Interest income		(4,433)	(4,117)	(5,643)	(2,828)	(1,474)
Interest expenses		100,066	148,215	123,592	61,543	85,369
Share of result of an associate		6	(670)	1	1	—
Impairment loss recognized in respect of goodwill		—	—	1,301	1,301	—
Allowance (reversal of allowance) for doubtful debts		21,834	51,466	(22,863)	(6,724)	(17,769)
Loss (gain) on disposal of fixed assets		6,352	8,774	3,418	(145)	1,059
Gain on disposal of subsidiaries	43	—	(391)	—	—	(22,399)
Exchange (gain) loss		(4,554)	59,963	(115,191)	(63,494)	1,837
Operating cash inflows before movements in working capital		396,913	911,143	1,095,454	720,129	627,560
(Increase) decrease in inventories		(150,596)	(12,655)	7,535	(152,765)	(148,779)
(Increase) decrease in retention monies receivable		(2,724)	805	—	—	—
Decrease (increase) in trade receivables		61,985	(252,891)	71,654	(24,775)	30,031
(Increase) decrease in other receivables		(84,685)	31,705	(67,525)	(94,772)	(134,863)
Increase (decrease) in trade payables		87,764	155,354	158,966	(16,873)	(58,381)
(Decrease) increase in other payables		(24,668)	133,729	29,467	(17,592)	82,936
Increase (decrease) in amounts due from fellow subsidiaries		—	6,665	6,675	(9,298)	—
Increase (decrease) in amounts due to minority shareholders of subsidiaries		1,651	(5,892)	—	—	—
Decrease in provisions		(4,041)	(660)	(4,426)	(3,564)	(2,398)
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

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ACCOUNTANTS' REPORT OF THE COMPANY

	Notes	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
Cash flows from investing activities						
Acquisition of subsidiaries (net of cash and cash equivalents)	42	—	1,409	(106,033)	(106,033)	—
Deposits paid for acquisition of an associate	22	—	—	—	—	(237,064)
Settlement of considerations for the acquisition of subsidiaries in prior year		—	—	(31,555)	(31,555)	—
Advance receipt of consideration for disposal of a subsidiary		—	—	156,754	—	—
Disposal of subsidiaries (net of cash and cash equivalents)	43	—	(9,636)	—	—	(7)
Acquisition of mining rights		(5,644)	(2,234)	(13,411)	(12,251)	(157)
Increase in prepaid lease payments		(39,715)	(6,239)	(90,827)	(73,566)	(38,448)
Acquisition of additional interest in subsidiaries		(20,422)	(7,692)	—	—	—
Interest received		4,433	4,117	5,643	2,828	1,474
Purchase and deposits paid for acquisition of fixed assets		(955,795)	(1,210,246)	(2,585,875)	(882,198)	(2,487,384)
Proceeds from disposal of fixed assets		9,186	22,667	2,735	706	79
Decrease (increase) in pledged bank deposits		45,210	23,119	542	(899)	(1,157,024)
Advance to fellow subsidiaries		—	(6,675)	—	—	—
(Advance to) repayment from immediate holding company		(40,794)	40,794	—	—	—
(Advance to) repayment from an intermediate holding company		—	(160,170)	160,170	160,170	—
Advances to governments		—	—	(118,916)	—	(42,307)
Net cash used in investing activities		<u>(1,003,541)</u>	<u>(1,310,786)</u>	<u>(2,620,773)</u>	<u>(942,798)</u>	<u>(3,960,838)</u>
Cash flows from financing activities						
Bank loans raised		2,299,078	715,426	4,633,719	1,282,075	7,724,043
Repayments of bank loans		(1,443,459)	(1,761,571)	(2,222,384)	(154,163)	(3,508,234)
Redemption of convertible bonds		(40)	—	—	—	—
Advance from (repayment to) immediate holding company		—	1,689,221	(709,995)	(709,995)	—
Deemed (distribution to) contribution from an intermediate holding company		—	—	(76,024)	217,758	(10,916)
Dividend paid		—	—	(45,985)	(45,985)	—
Net cash generated from financing activities		<u>855,579</u>	<u>643,076</u>	<u>1,579,331</u>	<u>589,690</u>	<u>4,204,893</u>
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 end of the year/period, representing cash and bank balances	45	<u>229,976</u>	<u>339,013</u>	<u>363,889</u>	<u>328,144</u>	<u>861,950</u>

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NOTES TO THE FINANCIAL INFORMATION**1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Island on March 13, 2003.

On December 28, 2007, the Group transferred the entire equity interests in Clear Bright and Flavour Glory to Smooth Concept. On June 30, 2008, Smooth Concept transferred back the entire equity interests in Clear Bright and Flavour Glory to the Company ("2007 Group Reorganization"). The Company, Smooth Concept, Clear Bright and Flavour Glory are under the common control of CRH both before and after the transfers of interests in Clear Bright and Flavour Glory, and that control is not transitory.

On December 4, 2007, the Group entered into an agreement to dispose of the entire issued share capital of Redland Concrete to CR Gas, a subsidiary of CRH, and the disposal was completed on March 5, 2008. On December 31, 2008, the Group acquired the entire issued share capital of Rich Team, the parent company of Redland Concrete, from CR Gas ("Reorganization of Redland Concrete"). Rich Team Group and the Company are ultimately controlled by CRH before and after the transfers of interest in Rich Team Group. The Group's equity interest in Rich Team was considered to be 100% throughout the years ended December 31, 2007 and 2008 except for interest in CR Gas that are not held by CRH during the period from March 5, 2008 to December 31, 2008, which are accounted for as minority interests, after taking into consideration the subsequent transfer-back of the entire issued share capital of Rich Team to the Group.

On June 30, 2008, the Group acquired the entire interest in Eurolink Resources Limited, Kenetic Resources Limited, Mingo Resources Limited, Smartec Resources Limited and Top Dragon Resources Limited from Smooth Concept (together with the Reorganization of Redland Concrete hereinafter collectively referred to as the "2008 Group Reorganization"). These companies were acquired by Smooth Concept from third parties on June 30, 2008. The Company and Smooth Concept are under the common control of CRH both before and after the business combination and that control is not transitory.

The Financial Information of the Group throughout the Track Record Period has been prepared using the principles of merger accounting as set out 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 the Group pursuant to the 2007 and 2008 Group Reorganization as if the business combination had occurred from the date when the combining entities or business first came under the control of the controlling party, CRH, except for the financial information of certain companies acquired or disposed of during the Track Record Period from the respective effective dates of acquisition or up to the respective dates of disposal. The consolidated statements of financial position of the Group 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 the Group as if the group 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 the Company as at those dates.

All intra-group transactions and balances have been eliminated on consolidation.

For the period up to December 2007, the management of the Company had considered Hong Kong Dollar ("HK\$") as the functional currency of the Company. In December 2007, the Company entered into agreements to dispose of its entire equity interests in certain subsidiaries which are principally operated in

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ACCOUNTANTS' REPORT OF THE COMPANY

Hong Kong. As a result of such disposals, the directors of the Company are of the view that the functional currency of the Company has been changed from HK\$ to Renminbi ("RMB") on January 1, 2008.

The Financial Information is presented in HK\$ as the Company proposes to list its shares on the Stock Exchange.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

The HKICPA issued a number of new Hong Kong Accounting Standards ("HKAS"s) and HKFRS, Amendments and Interpretations ("INT"s) (hereinafter collectively referred to as "new HKFRS") which are effective for the Group's financial periods beginning on January 1, 2009. For the purposes of preparing and presenting the Financial Information for the Track Record Period, the Group has adopted all these new HKFRS consistently throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following standards, amendment and interpretations that are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ⁽¹⁾
HKFRS (Amendments)	Improvements to HKFRS in 2009 ⁽²⁾
HKAS 27 (Revised)	Consolidated and separate financial statements ⁽¹⁾
HKAS 39 (Amendment)	Eligible hedged items ⁽¹⁾
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁽³⁾
HKFRS 3 (Revised)	Business combinations ⁽¹⁾
HK(IFRIC) — INT 17	Distribution of non-cash assets to owners ⁽¹⁾
HK(IFRIC) — INT 18	Transfer of assets from customers ⁽⁴⁾

⁽¹⁾ Effective for annual periods beginning on or after July 1, 2009.

⁽²⁾ Effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate.

⁽³⁾ Effective for annual periods beginning on or after January 1, 2010.

⁽⁴⁾ Effective for transfers on or after July 1, 2009.

The adoption of HKFRS 3 (Revised) may affect the accounting treatment for non-common control business combination for which the acquisition date is on or after January 1, 2010. HKAS 27 (Revised) will affect the accounting treatment for change in the Group's interest in a subsidiary.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRS issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the consolidated statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal (except for subsidiaries under common control which are accounted for using the principles of merger accounting), as appropriate.

Where necessary, adjustments are made to the Financial Information of subsidiaries to bring their accounting policies in line with those used by the Group.

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

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

Business combination**(i) Business combination under common control**

For group reorganization under common control, merger accounting is adopted. In applying merger accounting, financial statement items of the combining entities or businesses for the reporting period in which the common control combination occurs, and for any comparative periods disclosed, are included in the consolidated statements of financial position of the combined entity as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party or parties.

(ii) Business combination other than under common control

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

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

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

Acquisition of additional interest of subsidiaries that do not result in a change in control do not fall within the definition of business combination under HKFRS 3. The excess of the cost of acquisition over the carrying value of the minority interest is recognized as goodwill.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss in the Company's statement of financial position.

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 the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalized goodwill arising on acquisitions prior to January 1, 2005, the Group has 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 the Group's interest in fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment loss.

Impairment testing on capitalized goodwill

For the purpose of impairment testing, goodwill arising from acquisition is allocated to each of the Group's 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 each 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.

Discount on acquisition

A discount on acquisition arising from acquisition of subsidiaries or associates represents the excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the

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relevant subsidiaries over the cost of the acquisition. The discount on acquisition is recognized immediately in profit or loss.

Share-based payment transactions

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

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognized in profit or loss with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognized in employee share-based compensation reserve will be transferred to the share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share-based compensation reserve will be transferred to retained profits.

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

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

Fixed assets

Fixed assets other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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

Construction in progress includes fixed assets in the course of construction for production or administrative purposes or for the purposes not yet determined and are carried at cost less accumulated impairment losses, if any. Cost includes all construction expenditure, professional fees, borrowing cost capitalized and other relevant expenses directly attributable to such projects. Construction in progress is classified to the appropriate category of fixed assets when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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An item of fixed asset is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceed and the carrying amount of the item) is included in the consolidated statements of comprehensive income in the year/period in which the item is derecognized.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the year/period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of comprehensive income in the year/period in which the item is derecognized.

Mining rights

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

Gain or loss arising from derecognition of mining right is measured 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.

Interest in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a jointly controlled entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is neither control nor joint control over those policies.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

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

Prepaid lease payments

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as finance lease and accounted for as fixed assets. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those that are classified and accounted for as investment properties under the fair value model.

The up-front payments to acquire leasehold interest in land are accounted for as operating leases and are stated at cost and released over the lease term on a straight-line basis.

Impairment (other than goodwill)

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but 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.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average cost method.

Assets held for sale

Assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Assets and disposal groups classified as held for sale are measured at the lower of the previous carrying amount and fair value less costs to sell.

Revenue recognition

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

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Sale of goods is recognized when goods are delivered and title has passed.

Service income is recognized when services are rendered.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the year/period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years/periods, and it further excludes income and expense items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

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

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

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

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

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Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Group should purchase or construct non-current assets are recognized as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the year/period in which they become receivable.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the year/period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year/period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity, in which cases, the exchange differences are also recognized directly in equity.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company at the exchange rate prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the year/period in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the year/period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on acquisitions of foreign operations are treated as assets and liabilities of that foreign operations and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in the translation reserve.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. All other leases are classified as operating leases.

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The Group as lessor

Rental income from operating leases is recognized in the consolidated statements of comprehensive income on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over lease term on a straight-line basis.

The Group as lessee

Rental expense arising from operating leases is recognized in the consolidated statements of comprehensive income on a straight-line basis over the periods of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated and the Company's statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets comprise of loans and receivables and available for sale investments. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

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

Income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including retention monies receivable, amount due from immediate holding company/an intermediate holding company/fellow subsidiaries, trade and other receivables, pledged bank deposits and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

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Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At the end of each reporting period subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognized in profit or loss (see accounting policy on impairment of financial assets below)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition (see accounting policy on impairment of financial assets below)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occur after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

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

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in equity.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

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

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to immediate holding company/minority shareholders of subsidiaries/a fellow subsidiary and bank loans are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

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

Derecognition

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

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration received or receivable is recognized in profit or loss.

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Employee benefits

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Provision for other employee benefits are recognized when the Group has a present obligation to provide such benefits to its employee and is measured at the directors' best estimate of the future obligations discounted to its present value where the effect is material.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the end of each reporting period, and are discounted to present value where the effect is material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY**Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at December 31, 2006, 2007 and 2008 and June 30, 2009, the carrying amount of goodwill are HK\$45,113,000, HK\$53,329,000, HK\$62,841,000 and HK\$62,838,000, respectively. Details of the recoverable amount calculation are disclosed in note 20.

Deferred tax assets

The realizability of the deferred tax asset 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 and 2008 and June 30, 2009, the carrying amount of deferred tax assets is HK\$24,132,000, HK\$8,831,000, HK\$9,616,000 and HK\$9,902,000, respectively.

Estimated impairment of trade receivables

Where there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured on 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 and 2008 and June 30, 2009, the carrying amount of trade receivables are HK\$557,974,000 (net of allowance for doubtful debts of HK\$40,476,000), HK\$649,259,000 (net of allowance for doubtful debts of HK\$92,381,000), HK\$638,156,000 (net of allowance for doubtful debts of HK\$72,169,000) and HK\$625,233,000 (net of allowance for doubtful debts of HK\$53,253,000), respectively (see note 27).

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5. TURNOVER AND SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports which are prepared in accordance with accounting policies conform with HKFRS, that are regularly reviewed by the chief executive officer in order to allocate resources to the reportable segments and to assess their performance.

The Group's reportable segments under HKFRS 8 are as follows:

Cement — manufacture and sale of cement and related products

Concrete — manufacture and sale of concrete and related products

Precast products — manufacture and sale of precast and related products

During the year ended December 31, 2007, the Group disposed of the entire equity interests in CR Precast to Smooth Concept and as a result, the Precast products segment is presented as discontinued operation.

Turnover represents the amount received and receivable for goods sold to outside customers.

During the Track Record Period, none of the Group's customer contribute to more than 10% of the Group's turnover. In the opinion of the directors, the Group did not rely on any major customers during the Track Record Period.

Segment results represent the profits earned by each segment without allocation of central administration costs, directors' salaries, share of result of an associate, interest income and finance costs.

The information of segment results are as follows:

For the year ended December 31, 2006

	Continuing operations				Discontinued operation		
	Cement	Concrete	Elimination	Total	Precast products	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER							
External sales	1,319,330	792,365	—	2,111,695	217,442	—	2,329,137
Inter-segment sales	177,547	108	(177,655)	—	—	—	—
	<u>1,496,877</u>	<u>792,473</u>	<u>(177,655)</u>	<u>2,111,695</u>	<u>217,442</u>	<u>—</u>	<u>2,329,137</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS

Segment results	129,844	60,974	—	190,818	5,826	—	196,644
Interest income				7,969	11	(3,547)	4,433
Finance costs				(100,066)	(3,547)	3,547	(100,066)
Unallocated corporate expenses				(13,958)	—	—	(13,958)
Share of result of an associate				(6)	—	—	(6)
Profit before taxation				84,757	2,290	—	87,047
Taxation				(2,205)	(4,792)	—	(6,997)
Profit (loss) for the year				<u>82,552</u>	<u>(2,502)</u>	<u>—</u>	<u>80,050</u>

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For the year ended December 31, 2007

	Continuing operations				Discontinued operation		
	Cement	Concrete	Elimination	Total	Precast products	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER							
External sales	2,427,981	1,315,174	—	3,743,155	257,140	—	4,000,295
Inter-segment sales . .	251,673	2,718	(254,391)	—	—	—	—
	<u>2,679,654</u>	<u>1,317,892</u>	<u>(254,391)</u>	<u>3,743,155</u>	<u>257,140</u>	<u>—</u>	<u>4,000,295</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS							
Segment results	457,888	123,510	—	581,398	3,543	—	584,941
Interest income				6,606	53	(2,542)	4,117
Finance costs				(148,215)	(2,542)	2,542	(148,215)
Unallocated corporate expenses				(52,019)	—	—	(52,019)
Share of result of an associate				(5)	675	—	670
Profit before taxation				387,765	1,729	—	389,494
Taxation				(28,951)	384	—	(28,567)
Profit for the year				<u>358,814</u>	<u>2,113</u>	<u>—</u>	<u>360,927</u>

For the year ended December 31, 2008

	Continuing operations			
	Cement	Concrete	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	4,068,089	1,713,189	—	5,781,278
Inter-segment sales	356,622	39	(356,661)	—
	<u>4,424,711</u>	<u>1,713,228</u>	<u>(356,661)</u>	<u>5,781,278</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	802,155	167,299	—	969,454
Interest income				5,641
Finance costs				(123,592)
Unallocated corporate expenses				(28,654)
Share of result of an associate				(1)
Profit before taxation				822,848
Taxation				(39,101)
Profit for the year				<u>783,747</u>

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For the six months ended June 30, 2009

	Continuing operations			
	Cement	Concrete	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	2,005,149	733,590	—	2,738,739
Inter-segment sales	165,456	—	(165,456)	—
	<u>2,170,605</u>	<u>733,590</u>	<u>(165,456)</u>	<u>2,738,739</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	<u>382,119</u>	<u>108,466</u>	<u>—</u>	490,585
Interest income				1,474
Finance costs				(85,369)
Unallocated corporate expenses				<u>(17,098)</u>
Profit before taxation				389,592
Taxation				<u>(19,986)</u>
Profit for the period				<u>369,606</u>

For the six months ended June 30, 2008 (unaudited)

	Continuing operations			
	Cement	Concrete	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	1,757,072	846,890	—	2,603,962
Inter-segment sales	<u>207,680</u>	<u>—</u>	<u>(207,680)</u>	<u>—</u>
	<u>1,964,752</u>	<u>846,890</u>	<u>(207,680)</u>	<u>2,603,962</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	<u>539,376</u>	<u>89,357</u>	<u>—</u>	628,733
Interest income				2,828
Finance costs				(61,543)
Unallocated corporate expenses				<u>(12,190)</u>
Share of result of an associate				(1)
Profit before taxation				557,827
Taxation				<u>(21,220)</u>
Profit for the period				<u>536,607</u>

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Information of segment assets and segment liabilities are as follows:

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
Assets				
Segment assets				
— Cement	4,653,674	6,126,737	9,007,878	11,523,032
— Concrete	695,813	976,345	1,108,644	1,174,989
— Precast products	195,117	—	—	—
	5,544,604	7,103,082	10,116,522	12,698,021
Interest in an associate	54	49	48	48
Deferred tax assets	24,132	8,831	9,616	9,902
Taxation recoverable	—	—	36,961	4,920
Unallocated corporate assets (Note a)	440,373	509,828	530,313	2,455,857
Consolidated total assets	<u>6,009,163</u>	<u>7,621,790</u>	<u>10,693,460</u>	<u>15,168,748</u>
Liabilities				
Segment liabilities				
— Cement	708,574	962,205	1,165,814	1,319,433
— Concrete	162,685	307,891	328,337	317,213
— Precast products	36,910	—	—	—
	908,169	1,270,096	1,494,151	1,636,646
Tax liabilities	52,708	46,926	42,120	45,302
Unallocated corporate liabilities (Note b)	2,896,812	3,581,435	4,755,945	8,720,943
Consolidated total liabilities	<u>3,857,689</u>	<u>4,898,457</u>	<u>6,292,216</u>	<u>10,402,891</u>

Notes:

- (a) Unallocated corporate assets represent cash and bank balances, pledged bank deposits, deposits for acquisition of an associate and assets of the headquarter.
- (b) Unallocated corporate liabilities represent bank loans, amount due to immediate holding company and other payables of the headquarter. The bank loans and amount due to immediate holding company are classified as unallocated corporate liabilities because they are managed centrally by the treasury function of the Group.

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Other information

For the year ended December 31, 2006

	Continuing operations				Discontinued operations	Consolidated
	Cement	Concrete	Corporate level	Total	Precast products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	1,278,324	70,396	150	1,348,870	5,527	1,354,397
Additions to mining rights	5,644	—	—	5,644	—	5,644
Decrease in deposits for acquisition of fixed assets . .	253,691	—	—	253,691	—	253,691
Depreciation of fixed assets . . .	143,748	31,099	192	175,039	10,665	185,704
Allowance for doubtful debts	12,647	9,187	—	21,834	—	21,834
Amortization of mining rights	1,626	—	—	1,626	—	1,626
Release of prepaid lease payments	3,265	—	—	3,265	—	3,265
(Gain) loss on disposal of fixed assets	(1,200)	7,552	—	6,352	—	6,352

For the year ended December 31, 2007

	Continuing operations				Discontinued operations	Consolidated
	Cement	Concrete	Corporate level	Total	Precast products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	1,243,099	112,000	339	1,355,438	5,020	1,360,458
Additions to mining rights	2,234	—	—	2,234	—	2,234
Decrease in deposits for acquisition of fixed assets . .	62,834	—	—	62,834	—	62,834
Depreciation of fixed assets . . .	195,626	36,451	335	232,412	10,146	242,558
Allowance for doubtful debts	15,038	33,378	—	48,416	3,050	51,466
Amortization of mining rights	2,045	—	—	2,045	—	2,045
Release of prepaid lease payments	4,106	—	—	4,106	—	4,106
Impairment loss recognized in respect of fixed assets	12,379	—	—	12,379	—	12,379
Loss on disposal of fixed assets	5,248	3,510	10	8,768	6	8,774

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For the year ended December 31, 2008

	Continuing operations				Discontinued operations	Consolidated
	Cement	Concrete	Corporate level	Total	Precast products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	2,522,682	105,494	134	2,628,310	—	2,628,310
Additions to mining rights	13,411	—	—	13,411	—	13,411
Increase in deposits for acquisition of fixed assets . .	46,699	—	—	46,699	—	46,699
Depreciation of fixed assets . . .	275,494	45,703	167	321,364	—	321,364
Reversal of allowance for doubtful debts	(12,165)	(10,698)	—	(22,863)	—	(22,863)
Amortization of mining rights	2,654	—	—	2,654	—	2,654
Release of prepaid lease payments	6,684	—	—	6,684	—	6,684
Impairment loss on other receivables	12,329	—	—	12,329	—	12,329
Impairment loss recognized in respect of goodwill	—	1,301	—	1,301	—	1,301
(Gain) loss on change in fair value of investment properties	(56,040)	1,000	—	(55,040)	—	(55,040)
Loss (gain) on disposal of fixed assets	1,907	1,517	(6)	3,418	—	3,418

For the six months ended June 30, 2009

	Continuing operations				Discontinued operations	Consolidated
	Cement	Concrete	Corporate level	Total	Precast products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	2,530,618	84,913	1,786	2,617,317	—	2,617,317
Additions to mining rights	157	—	—	157	—	157
Increase in deposits for acquisition of fixed assets . .	6,870	—	—	6,870	—	6,870
Additions to deposits for acquisition of an associate . .	—	—	237,064	237,064	—	237,064
Additions to prepaid lease payments	33,043	5,405	—	38,448	—	38,448
Depreciation of fixed assets . . .	159,334	25,755	114	185,203	—	185,203
Reversal of allowance for doubtful debts	(497)	(17,272)	—	(17,769)	—	(17,769)
Amortization of mining rights	1,365	—	—	1,365	—	1,365
Release of prepaid lease payments	3,777	—	—	3,777	—	3,777
Loss on change in fair value of investment properties	—	1,000	—	1,000	—	1,000
Loss (gain) on disposal of fixed assets	1,000	82	(23)	1,059	—	1,059

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For the six months ended June 30, 2008 (unaudited)

	Continuing operations				Discontinued operations	Consolidated
					Precast products	Total
	Cement	Concrete	Corporate level	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	852,450	62,904	34	915,388	—	915,388
Additions to mining rights	12,251	—	—	12,251	—	12,251
Increase in deposits for acquisition of fixed assets	5,218	—	—	5,218	—	5,218
Depreciation of fixed assets	133,315	22,804	83	156,202	—	156,202
Reversal of allowance for doubtful debts	(2,123)	(4,601)	—	(6,724)	—	(6,724)
Gain on disposal of fixed assets . . .	(145)	—	—	(145)	—	(145)
Amortization of mining rights	1,241	—	—	1,241	—	1,241
Release of prepaid lease payments	3,059	—	—	3,059	—	3,059
Impairment loss on other receivables	12,146	—	—	12,146	—	12,146
Impairment loss recognized in respect of goodwill	—	1,301	—	1,301	—	1,301

Turnover from external customers attributed to the Group by location of customers is presented as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
— Chinese Mainland	1,846,423	3,376,318	5,379,432	2,415,560	2,549,007
— Hong Kong	482,714	623,977	401,846	188,402	189,732
	<u>2,329,137</u>	<u>4,000,295</u>	<u>5,781,278</u>	<u>2,603,962</u>	<u>2,738,739</u>

Non-current assets other than deferred tax assets by location of assets is presented as follows:

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total non-current assets other than deferred tax assets				
— Chinese Mainland	4,276,664	5,620,642	8,537,803	11,384,116
— Hong Kong	226,071	218,176	244,657	206,175
	<u>4,502,735</u>	<u>5,838,818</u>	<u>8,782,460</u>	<u>11,590,291</u>

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6. OTHER INCOME

	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:					
Interest income	7,969	6,606	5,643	2,828	1,474
Exchange gain	18,771	15,480	183,619	182,524	—
Government incentives (Note 50)	44,141	35,147	52,086	22,727	25,027
Sales of scrap materials	3,057	2,378	4,466	2,299	2,788
Compensation received from insurance	1,813	—	1,838	—	1,988
Service income	3,913	6,976	2,165	1,969	—
Rental income	—	—	8,513	3,927	4,976
Others	6,112	2,636	7,169	3,809	4,532
	<u>85,776</u>	<u>69,223</u>	<u>265,499</u>	<u>220,083</u>	<u>40,785</u>
Discontinued operations:					
Interest income	11	53	—	—	—
Others	1,112	2,532	—	—	—
	<u>1,123</u>	<u>2,585</u>	<u>—</u>	<u>—</u>	<u>—</u>
Less: Elimination of intercompany interest income	<u>(3,547)</u>	<u>(2,542)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>83,352</u>	<u>69,266</u>	<u>265,499</u>	<u>220,083</u>	<u>40,785</u>

7. FINANCE COSTS

	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:					
Interests on					
— Bank loans wholly repayable within five years	126,305	157,826	166,882	56,630	155,881
— Amount due to immediate holding company	—	25,589	14,088	14,088	—
— Convertible bonds	11,699	—	—	—	—
	<u>138,004</u>	<u>183,415</u>	<u>180,970</u>	<u>70,718</u>	<u>155,881</u>
Less: Amount capitalized to fixed assets	<u>(37,938)</u>	<u>(35,200)</u>	<u>(57,378)</u>	<u>(9,175)</u>	<u>(70,512)</u>
	<u>100,066</u>	<u>148,215</u>	<u>123,592</u>	<u>61,543</u>	<u>85,369</u>
Discontinued operations:					
Interests on amount due to immediate holding company	3,547	2,542	—	—	—
Less: Elimination of intercompany interest expenses	<u>(3,547)</u>	<u>(2,542)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total	<u>100,066</u>	<u>148,215</u>	<u>123,592</u>	<u>61,543</u>	<u>85,369</u>
	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	%	%	%	%	%
Capitalization rate of borrowing costs to expenditure on qualifying assets	<u>5.0</u>	<u>5.6</u>	<u>6.1</u>	<u>5.9</u>	<u>5.2</u>

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8. PROFIT BEFORE TAXATION

[illegible]

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ACCOUNTANTS' REPORT OF THE COMPANY

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

For the year ended December 31, 2006

Name of director	Directors' fees	Salaries and allowances	Pension costs and mandatory provident fund	Discretionary bonus	Share-based payment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Qiao Shibo ⁽¹⁾	—	—	—	—	—	—
Shi Shanbo ⁽²⁾	—	666	26	—	—	692
Zhou Junqing	—	879	36	—	—	915
Zhou Longshan	—	865	70	—	—	935
Sun Mingquan ⁽¹⁾	—	764	34	—	—	798
Zheng Yi ⁽³⁾	—	721	32	—	—	753
Jiang Wei ⁽⁷⁾	—	—	—	—	—	—
Keung Chi Wang, Ralph ⁽⁶⁾	—	—	—	—	—	—
Chan Mo Po, Paul ⁽⁴⁾	58	—	—	—	—	58
Lin Zongshou ⁽⁴⁾	58	—	—	—	—	58
Lui Pui Kee, Francis ⁽⁴⁾	58	—	—	—	—	58
	<u>174</u>	<u>3,895</u>	<u>198</u>	<u>—</u>	<u>—</u>	<u>4,267</u>

For the year ended December 31, 2007

Name of director	Directors' fees	Salaries and allowances	Pension costs and mandatory provident fund	Discretionary bonus	Share-based payment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Qiao Shibo ⁽¹⁾	—	—	—	—	—	—
Zhou Junqing	—	940	39	691	—	1,670
Zhou Longshan	—	879	70	796	—	1,745
Sun Mingquan ⁽¹⁾	—	793	35	520	—	1,348
Zheng Yi ⁽³⁾	—	55	3	480	—	538
Jiang Wei ⁽⁷⁾	—	—	—	—	—	—
Keung Chi Wang, Ralph ⁽⁶⁾	—	—	—	—	—	—
Song Lin ⁽⁵⁾	—	—	—	—	—	—
	<u>—</u>	<u>2,667</u>	<u>147</u>	<u>2,487</u>	<u>—</u>	<u>5,301</u>

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For the year ended December 31, 2008

Name of director	Directors' fees	Salaries and allowances	Pension costs and mandatory provident fund	Discretionary bonus	Share-based payment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Qiao Shibo ⁽¹⁾	—	—	—	—	—	—
Zhou Junqing	—	1,611	64	1,084	—	2,759
Zhou Longshan	—	1,101	70	790	—	1,961
Sun Mingquan ⁽¹⁾	—	449	21	630	—	1,100
Jiang Wei ⁽⁷⁾	—	—	—	—	—	—
Song Lin ⁽⁵⁾	—	—	—	—	—	—
Lau Chung Kwok						
Robert ⁽⁸⁾	—	724	51	500	—	1,275
Li Fuzho ⁽⁹⁾	—	—	—	—	—	—
Wei Bin ⁽⁹⁾	—	—	—	—	—	—
Du Wenmin ⁽⁹⁾	—	—	—	—	—	—
Zeng Xuemin ⁽¹⁰⁾	54	—	—	—	—	54
Ip Shu Kwan						
Stephen ⁽¹⁰⁾	54	—	—	—	—	54
Lam Chi Yuen ⁽¹⁰⁾	54	—	—	—	—	54
Keung Chi Wang						
Ralph ⁽⁶⁾	—	—	—	—	—	—
	<u>162</u>	<u>3,885</u>	<u>206</u>	<u>3,004</u>	<u>—</u>	<u>7,257</u>

For the six months ended June 30, 2009

Name of director	Directors' fees	Salaries and allowances	Pension costs and mandatory provident fund	Discretionary bonus	Share-based payment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Zhou Junqing	—	881	55	1,446	—	2,382
Zhou Longshan	—	650	50	1,325	—	2,025
Lau Chung Kwok,						
Robert ⁽⁸⁾	—	495	43	843	—	1,381
Li Fuzho ⁽⁹⁾	—	—	—	—	—	—
Wei Bin ⁽⁹⁾	—	—	—	—	—	—
Du Wenmin ⁽⁹⁾	—	—	—	—	—	—
Zeng Xuemin ⁽¹⁰⁾	69	—	—	—	—	69
Ip Shu Kwan						
Stephen ⁽¹⁰⁾	69	—	—	—	—	69
Lam Chi Yuen ⁽¹⁰⁾	69	—	—	—	—	69
	<u>207</u>	<u>2,026</u>	<u>148</u>	<u>3,614</u>	<u>—</u>	<u>5,995</u>

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For the six months ended June 30, 2008 (unaudited)

Name of director	Directors' fees	Salaries and allowances	Pension costs and mandatory provident fund	Discretionary bonus	Share-based payment	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Qiao Shibo ⁽¹⁾	—	—	—	—	—	—
Zhou Junqing	—	502	28	—	—	530
Zhou Longshan	—	437	35	—	—	472
Sun Mingquan ⁽¹⁾	—	371	17	—	—	388
Song Lin ⁽⁵⁾	—	—	—	—	—	—
Jiang Wei ⁽⁷⁾	—	—	—	—	—	—
Keung Chi Wang, Ralph ⁽⁶⁾	—	—	—	—	—	—
Lau Chung Kwok, Robert ⁽⁸⁾	—	191	15	—	—	206
	—	1,501	95	—	—	1,596
	—	—	—	—	—	—

(1) Qiao Shibo and Sun Mingquan were the executive directors of the Company for the two years ended December 31, 2007 and have resigned in August 2008.

(2) Shi Shanbo was an executive director of the Company up to December 2006.

(3) Zheng Yi was an executive director of the Company for the year ended December 31, 2006 and has resigned in April 2007.

(4) Chan Mo Po, Paul, Lin Zongshou, Lui Pui Kee, Francis were the independent non-executive directors of the Company when the Company was listed on the Stock Exchange in 2006. All these independent non-executive directors have resigned when the Company was delisted.

(5) Song Lin was appointed as the director of the Company during the year ended December 31, 2007 and has resigned in August 2008.

(6) Keung Chi Wang, Ralph was a non-executive director of the Company for the two years ended December 31, 2007 and has resigned in February 2008.

(7) Jiang Wei was a non-executive director of the Company for the two years ended December 31, 2007 and has resigned in August 2008.

(8) Lau Chung Kwok, Robert was appointed as the director of the Company in April 2008.

(9) Li Fuzho, Wei Bin and Du Wenmin were appointed as non-executive directors of the Company in August 2008.

(10) Zeng Xuemin, Ip Shu Kwan Stephen and Lam Chi Yuen were appointed as independent non-executive directors of the Company in August 2008.

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(b) Employees' emoluments

The five highest paid employees in the Group, included two, three, three, nil and three directors of the Company for the year ended December 31, 2006, December 31, 2007, December 31, 2008 and the six months ended June 30, 2008 and June 30, 2009, respectively. The details of the emoluments paid to the remaining individuals for the Track Record Period were as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Salaries and allowances	3,632	3,032	2,096	3,378	2,677
Pension cost and mandatory provident fund contributions	181	122	90	215	72
	<u>3,813</u>	<u>3,154</u>	<u>2,186</u>	<u>3,593</u>	<u>2,749</u>

Their emoluments were within the following bands:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
				(unaudited)	
Nil to HK\$1,000,000	1	—	1	4	—
HK\$1,000,001 to HK\$1,500,000	2	—	1	1	2
HK\$1,500,001 to HK\$2,000,000	—	2	—	—	—
	<u>3</u>	<u>2</u>	<u>2</u>	<u>5</u>	<u>2</u>

During the Track Record Period, no emoluments has been paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

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On June 26, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the proposed reduction in corporate profit tax rate by 1% to 16.5% effective from the year of assessment 2008-2009. The effect of such decrease has been reflected in measuring the Hong Kong Profits Tax for the year ended December 31, 2008 and for the six months ended June 30, 2008 and 2009. The Hong Kong Profits Tax was calculated at 17.5% of the estimated assessable profit for the years ended December 31, 2006 and 2007.

Chinese Mainland Enterprise Income Tax represents the income tax in the Chinese Mainland which is calculated at the prevailing tax rate on the taxable income of the group entities in the Chinese Mainland.

According to Chinese Mainland tax laws and regulations, certain subsidiaries, which are established in the Chinese Mainland, are exempted from Chinese Mainland Foreign Enterprise Income Tax "FEIT" for the first two years starting from their first profit-making year after offsetting the accumulated losses brought forward from previous five years, followed by a 50% reduction on the FEIT for the next three years ("Tax Holiday").

On March 16, 2007, The Law of the Chinese Mainland on Enterprise Income Tax (the "New Tax Law") was promulgated by Order No. 63 of the President of the Chinese Mainland. On December 6, 2007, the State Council of the Chinese Mainland issued Implementation Regulations of the New Tax Law, which became effective on January 1, 2008 and superseded the Chinese Mainland Foreign Invested Enterprise and Foreign Enterprise Income Tax Law ("FEIT") and the Provisional Regulations on Enterprise Income Tax of the Chinese Mainland. The New Tax Law consolidates the previous two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both types of enterprises. Under the New Tax Law, certain subsidiaries that previously 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. Certain subsidiaries that previously enjoyed the Tax Holiday will continue to enjoy such preferential tax treatment until the expiry of such prescribed period. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective years when the asset is realized or the liability is settled.

Deferred taxation amounting to HK\$37 million, HK\$25 million and HK\$38 million have not been provided for in the Financial Information in respect of the temporary differences attributable to the undistributed retained profits earned by the subsidiaries established in the Chinese Mainland during the year ended December 31, 2008 and during the six months ended June 30, 2008 and 2009, respectively, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The subsidiaries incorporated in the British Virgin Islands are exempted from income tax because no assessable profit is generated in their respective jurisdiction and they are not subject to any tax in other jurisdictions.

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Taxation arising in the Chinese Mainland is calculated at the following income tax rates.

	Year ended December 31,			Six months ended June 30,		Notes
	2006	2007	2008	2008	2009	
Beihai Concrete	—	—	—	—	12.5%	(a)
Cement Investments	15.0%	15.0%	18.0%	18.0%	20.0%	(b)
Dongguan Concrete	12.0%	12.0%	25.0%	25.0%	25.0%	(c)
Dongguan Fengcheng Concrete	—	—	—	—	12.5%	(d)
Dongguan Huarun Cement	12.0%	12.0%	25.0%	25.0%	25.0%	(c)
Dongguan Precast	12.0%	12.0%	N/A ^(ac)	N/A ^(ac)	N/A ^(ac)	(e)
Fangchenggang Cement	—	—	—	—	—	(f)
Fangchenggang Concrete	—	—	—	—	—	(f)
Fengkai Cement	N/A ^(ad)	—	—	—	—	(g)
Fengkai Concrete	N/A ^(ad)	N/A ^(ad)	—	N/A ^(ad)	25.0%	(h)
Fengkai Quarry	N/A ^(ad)	N/A ^(ad)	—	N/A ^(ad)	25.0%	(h)
Foshan Concrete	—	—	—	—	12.5%	(i)
Foshan Shunan Concrete	—	12.0%	12.5%	12.5%	12.5%	(j)
Fuchuan Cement	N/A ^(ad)	N/A ^(ad)	25.0%	25.0%	25.0%	(k)
Fujian Concrete	N/A ^(ad)	N/A ^(ad)	25.0%	25.0%	25.0%	(l)
Fuzhou Cement	N/A ^(ad)	—	—	—	—	(m)
Fuzhou Concrete	N/A ^(ad)	—	—	—	—	(m)
Fuzhou Development Zone	N/A ^(ad)	—	—	—	—	(m)
Gaoyao Concrete	N/A ^(ad)	N/A ^(ad)	N/A ^(ad)	N/A ^(ad)	—	(p)
Guangxi Concrete	—	—	—	—	12.5%	(n)
Guigang Cement	—	—	7.5%	7.5%	7.5%	(o)
Guigang Concrete	N/A ^(ad)	N/A ^(ad)	—	N/A ^(ad)	25.0%	(h)
Guiping Cement	N/A ^(ad)	N/A ^(ad)	25.0%	25.0%	25.0%	(k)
Hepu Cement	N/A ^(ad)	N/A ^(ad)	25.0%	25.0%	25.0%	(k)
Heyuan Concrete	N/A ^(ad)	—	—	—	—	(g)
Hongshuihe Cement	7.5%	15.0%	15.0%	15.0%	15.0%	(q)
Hongshuihe Joint Stock	33.0%	33.0%	25.0%	25.0%	25.0%	(r)
Hongshuihe Pier Store	33.0%	33.0%	25.0%	25.0%	N/A ^(af)	(s)
Jiangmen Concrete	—	—	—	—	12.5%	(d)
Jiangmen Tangxia Concrete	N/A ^(ad)	—	—	—	—	(g)
Laibin Concrete	N/A ^(ad)	N/A ^(ad)	N/A ^(ad)	N/A ^(ad)	25.0%	(ag)
Liuzhou Concrete	N/A ^(ad)	—	—	—	—	(t)
Longyan Cement	N/A ^(ad)	N/A ^(ad)	N/A ^(ad)	N/A ^(ad)	25.0%	(ag)
Luchuan Cement	N/A ^(ad)	N/A ^(ad)	—	N/A ^(ad)	25.0%	(h)
Nanning Cement	—	—	—	—	—	(u)
Nanning Concrete	—	12.0%	12.5%	12.5%	12.5%	(v)
Nanning Qingxiu Concrete	N/A ^(ad)	N/A ^(ad)	25.0%	25.0%	25.0%	(k)
Nanning Xixiangtang Concrete	—	—	12.5%	12.5%	12.5%	(w)
Pingnan Cement	—	7.5%	7.5%	7.5%	7.5%	(x)
Qinzhou Concrete	N/A ^(ad)	—	—	—	—	(t)
Shangsi Cement	N/A ^(ad)	N/A ^(ad)	25.0%	25.0%	25.0%	(k)
Shantou Cement	N/A ^(ad)	N/A ^(ad)	—	—	—	(y)
Shengcheng Concrete	7.5%	7.5%	9.0%	9.0%	20.0%	(z)
Shenzhen Concrete	7.5%	15.0%	18.0%	18.0%	20.0%	(aa)
Tianyang Cement	N/A ^(ad)	N/A ^(ad)	—	N/A ^(ad)	25.0%	(h)
Wenwei Concrete	15.0%	15.0%	18.0%	18.0%	20.0%	(b)
Wuxuan Cement	N/A ^(ad)	N/A ^(ad)	25.0%	25.0%	25.0%	(k)

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	Year ended December 31,			Six months ended June 30,		Notes
	2006	2007	2008	2008	2009	
Zhanjiang Cement	12.0%	12.0%	25.0%	25.0%	25.0%	(ab)
Zhangzhou Cement	N/A ^(ad)	N/A ^(ad)	—	N/A ^(ad)	25.0%	(h)
Zhaoqing Concrete	N/A ^(ad)	N/A ^(ad)	25.0%	25.0%	25.0%	(ac)

Notes:

- (a) Beihai Concrete is a Wholly Foreign-owned Enterprise ("WFOE") registered in Guangxi Province, which is subject to FEIT at a rate of 15% for years 2006 and 2007 and 25% for year 2008. It was not subject to tax in 2006 as it incurred tax loss during that year. Year 2007 was its first profit-making year and the first year of the Tax Holiday.
- (b) Cement Investments and Wenwei Concrete are WFOEs registered in Shenzhen Special Economic Region, which are subject to FEIT at a rate of 15% for years 2006 and 2007 and 18% for year 2008 and 20% for the six months ended June 30, 2009.
- (c) Dongguan Concrete and Dongguan Huarun Cement are WFOEs registered in Guangdong Province, which are subject to FEIT at half of the rate of 24% for years 2006 and 2007 under the Tax Holiday and 25% for year 2008 and six months ended June 30, 2009. Both Dongguan Huarun Cement's and Dongguan Concrete's first profit-making year were year 2003.
- (d) Dongguan Fengcheng Concrete and Jiangmen Concrete are WFOEs registered in Guangdong Province, which are subject to FEIT at a rate of 24% for years 2006 and 2007, and 25% for year 2008 and six months ended June 30, 2009. They were not subject to tax in 2006 as they incurred tax loss during that year. Year 2007 was their first profit-making year and the first year of the Tax Holiday.
- (e) Dongguan Precast is a WFOE registered in Guangdong Province, which is subject to FEIT at half of the rate of 24% for years 2006 and 2007 under the Tax Holiday.
- (f) Fangchenggang Cement and Fangchenggang Concrete are WFOEs registered in Guangxi Province, which are subject to FEIT at a rate of 15% for years 2006 and 2007 and 25% for year 2008 and six months ended June 30, 2009. Both Fangchenggang Cement and Fangchenggang Concrete are not subject to tax for years 2006 and 2007 as they incurred tax losses during those two years. Year 2008 was the first profit-making year and the first year of the Tax Holiday.
- (g) Fengkai Cement, Heyuan Concrete and Jiangmen Tangxia Concrete, are WFOEs registered in Guangdong Province, which are subject to FEIT at a rate of 24% for year 2007 and 25% for year 2008 and six months ended June 30, 2009. They were not subject to tax for years 2007 and 2008, and six months ended June 30, 2009 as they incurred tax losses during those years/period.
- (h) Fengkai Concrete, Fengkai Quarry, Guigang Concrete, Luchuan Cement, Tianyang Cement and Zhangzhou Cement are WFOEs registered in Guangdong Province, which are subject to a rate of 25% for six months ended June 30, 2009. They were not subject to tax for year 2008 as they incurred tax losses during that year.

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- (i) Foshan Concrete is a WFOE registered in Guangdong Province, which is subject to FEIT at a rate of 24% for years 2006 and 2007 and 25% for year 2008 and six months ended June 30, 2009. It was not subject to tax in 2006 as it incurred tax losses during that year. Foshan Concrete started to enjoy the first year of the Tax Holiday in 2007.
- (j) Foshan Shunan Concrete is a WFOE registered in Guangdong Province, which is subject to FEIT at a rate of 24% for years 2006 and 2007 and 25% for year 2008 and six months ended June 30, 2009. Year 2006 was the second profit-making year and the second year of the Tax Holiday.
- (k) Fuchuan Cement, Guiping Cement, Hepu Cement, Nanning Qingxiu Concrete, Shangsi Cement and Wuxuan Cement are WFOEs registered in Guangxi Province, which are subject to a tax rate of 25% for year 2008 and six months ended June 30, 2009.
- (l) Fujian Concrete is a WFOE registered in Fujian Province, which is subject to a tax rate of 25% for year 2008 and six months ended June 30, 2009.
- (m) Fuzhou Cement, Fuzhou Concrete and Fuzhou Development Zone are WFOEs registered in Fujian Province, which are subject to FEIT at a rate of 24% for year 2007 and 25% for year 2008 and six months ended June 30, 2009. They were not subject to tax for years 2007 and 2008, and six months ended June 30, 2009 as they incurred tax losses during those years/period.
- (n) Guangxi Concrete is a WFOE registered in Guangxi Province, which is subject to FEIT at a rate of 15% for years 2006 and 2007, and 25% for year 2008 and six months ended June 30, 2009. It was not subject to tax in 2006 as it incurred tax loss during that year. Year 2007 was the first profit-making year and the first year of the Tax Holiday.
- (o) Guigang Cement is a WFOE registered in Guangxi Province, which is subject to FEIT at a rate of 15% from years 2006 to 2010 under the application of Western Development Policy implemented by Chinese Mainland government. Year 2006 was the first profit-making year and the first year of the Tax Holiday.
- (p) Gaoyao Concrete is WFOEs registered in Guangdong Province, which is subject to a tax rate of 25% for the six months ended June 30, 2009. It was not subject to tax during the six months ended June 30, 2009 as it incurred tax loss during the period.
- (q) Hongshuihe Cement is a WFOE registered in Guangxi Province, which is subject to FEIT at a rate of 15% from years 2006 to 2010 under the application of Western Development Policy implemented by Chinese Mainland government. Hongshuihe Cement started to enjoy the Tax Holiday in 2002.
- (r) Hongshuihe Joint Stock is a limited stock company registered in Guangxi Province, which is subject to FEIT at a rate of 33% for years 2006 and 2007 and 25% for year 2008 and six months ended June 30, 2009.
- (s) Hongshuihe Pier Store is a Sino-Foreign Equity Joint Venture Enterprise registered in Guangxi Province, which is subject to FEIT at a rate of 33% for years 2006 and 2007 and 25% for year 2008.
- (t) Liuzhou Concrete and Qinzhou Concrete are WFOEs registered in Guangxi Province, which are subject to FEIT at a rate of 33% for year 2007 and 25% for year 2008 and six months ended June 30, 2009. They were not subject to tax for years 2007 and 2008, and six months ended June 30, 2009 as they incurred tax losses during those years/period.

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- (u) Nanning Cement is a WFOE registered in Guangxi Province, which is subject to FEIT at a rate of 15% from years 2006 to 2010 under the application of Western Development Policy implemented by Chinese Mainland government. It was not subject to tax for years 2006 and 2007 as it incurred tax losses during those two years. Year 2008 is its first profit-making year and the first year of the Tax Holiday.
- (v) Nanning Concrete is a WFOE registered in Guangxi Province, which is subject to FEIT at half of the rates of 24% for year 2007 under the Tax Holiday and 25% for year 2008 and six months ended June 30, 2009. Year 2006 was its second profit-making year and second year under the Tax Holiday.
- (w) Nanning Xixiangtang Concrete is a WFOE registered in Guangxi Province, which is subject to FEIT at a rate of 24% for years 2006 and 2007 and 25% for year 2008 and six months ended June 30, 2009. Year 2006 was its first profit-making year and the first year of the Tax Holiday.
- (x) Pingnan Cement is a Sino-foreign Equity Joint Venture Enterprise registered in Guangxi Province, which is subject to FEIT at half of the rate of 15% from years 2007 to 2009 under the application of Western Development Policy implemented by Chinese Mainland government and the Tax Holiday. Year 2006 was its second profit-making year and the second year under the Tax Holiday.
- (y) Shantou Cement is a WFOE registered in Guangdong Province, which is subject to a tax rate of 25% for year 2008 and six months ended June 30, 2009. Year 2008 is its first profit-making year and the first year of the Tax Holiday.
- (z) Shengcheng Concrete is a WFOE registered in Shenzhen Special Economic Region, which is subject to FEIT at half of the rates of 15% for years 2006 and 2007 and 18% for year 2008 under the Tax Holiday. It is subject to FEIT at 20% for the six months ended June 30, 2009.
- (aa) Shenzhen Concrete is a WFOE registered in Shenzhen Special Economic Region, which is subject to FEIT at half of the rate of 15% for year 2006 under the Tax Holiday and at a rate of 15 % for year 2007, and 18% for year 2008 and 20% for six months ended June 30, 2009.
- (ab) Zhanjiang Cement is a Sino-Foreign Equity Joint Venture Enterprise registered in Guangxi Province, which is subject to FEIT at half of the rate of 24% for years 2006 and 2007 under the Tax Holiday and at a tax rate of 25% for year 2008 and six months ended June 30, 2009.
- (ac) Zhaoqing Concrete is a WFOE registered in Guangdong Province, which is subject to a tax rate of 25% for year 2008 and six months ended June 30, 2009.
- (ad) These companies were not yet established or acquired by the Group during the relevant financial year/period.
- (ae) Dongguan Precast was disposed of by the Group on December 28, 2007.
- (af) Hongshuihe Pier Store was disposed of by the Group during the six months ended June 30, 2009.
- (ag) Laibin Concrete and Longyan Cement are WFOEs registered in Guangdong Province, which are subject to a tax rate of 25% for six months ended June 30, 2009.

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The charge for the year/period can be reconciled to the consolidated profit before taxation as follows:

	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
Profit before taxation					
Continuing operations	84,757	387,765	822,848	557,827	389,592
Discontinued operations	2,290	1,729	—	—	—
	<u>87,047</u>	<u>389,494</u>	<u>822,848</u>	<u>557,827</u>	<u>389,592</u>
Tax at the Hong Kong Profits Tax rate of 17.5% (16.5% for 2008 and 2009)	15,233	68,161	135,770	92,042	64,283
Tax effect of expenses that are not deductible in determining taxable profit (Note a)	6,903	15,695	13,913	13,764	3,830
Tax effect of incomes that are not taxable in determining taxable profit (Note b)	(4,790)	(4,600)	(40,862)	(32,586)	(2,395)
Tax effect of reduced tax rate under Tax Holiday	(21,282)	(74,734)	(78,384)	(54,161)	(67,642)
Tax effect of tax losses not recognized	8,528	16,609	7,898	4,027	15,425
Tax effect of utilization of tax losses previously not recognized	(1,376)	(1,241)	(4,052)	(5,220)	(871)
Tax effect of reversal of tax loss recognized in previous years (Note c)	—	9,669	—	—	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,228)	(889)	5,163	3,699	5,402
Decrease in the opening deferred tax assets resulting from a decrease in tax rate	—	353	316	316	—
Decrease in opening deferred tax liabilities resulting from a decrease in tax rate	—	—	(1,673)	(1,673)	—
Under (over) provision in prior years	5,009	(456)	1,012	1,012	1,954
Taxation expense for the year/period	<u>6,997</u>	<u>28,567</u>	<u>39,101</u>	<u>21,220</u>	<u>19,986</u>

Notes:

- (a) The amount mainly represents interest expenses to immediate holding company.
- (b) The amount mainly represents non-taxable interest income, exchange gain, sale of scrap materials and compensation received from insurance that are not taxable for tax purposes.
- (c) The deferred tax assets related to the tax losses recognized in previous years was reversed during the year ended December 31, 2007 as the management of the Group expected the utilization of such tax loss was remote.

Details of deferred taxation are set out in note 23.

11. RETIREMENT BENEFITS SCHEME

Employees in Hong Kong may be offered to participate in the Group's defined contribution retirement schemes or to join the Mandatory Provident Fund Scheme ("MPF"). The assets of the defined contribution retirement scheme are held separately in independently administered funds. The amount of contributions is based on a specified percentage of the basic salaries of employees and is charged to the consolidated statements of comprehensive income. Any forfeited contributions in respect of unvested

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benefits of staff leavers will be used to reduce the Group's contributions. There was no significant amount of unutilized forfeited contributions at the end of each reporting period. The assets under the MPF are held separately from those of the Group in funds under the control of trustee. The Group and each of the employees make monthly mandatory contributions to the MPF.

The employees of the Group in the Chinese Mainland are members of government-managed retirement benefit schemes operated by the respective local government in the Chinese Mainland. The Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to these schemes is to make the specified contributions.

12. DIVIDENDS

On July 31, 2008, the directors proposed and paid interim dividend of approximately HK\$45,985,000 in respect of the year ended December 31, 2008.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended December 31,			Six months ended June 30,	Six months ended June 30,
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<u>Earnings</u>					
Earnings attributable to equity holders of the Company for the purpose of basic earnings per share	81,954	360,253	760,924	530,353	365,663
Effect of dilutive potential ordinary shares:					
Interest on convertible bonds	11,699				
Earnings for the purposes of diluted earnings per share	93,653				
	As at December 31,			As at June 30,	As at June 30,
	2006	2007	2008	2008	2009
<u>Numbers of shares</u>					
Weighted average number/number of shares for the purpose of basic earnings per share	560,936,929	781,787,461	781,787,461	781,787,461	781,787,462
Effect of dilutive potential ordinary shares relating to convertible bonds	95,329,118				
Weighted average number of shares for the purpose of diluted earnings per share	656,266,047				

The computation of diluted earnings per share for the year ended December 31, 2006 did not assume the exercise of the Company's outstanding share options because the exercise prices of those options were higher than the average market prices of the Company's shares during the year ended December 31, 2006.

14. DISCONTINUED OPERATIONS

On December 28, 2007, the Group entered into an agreement to dispose of the entire issued shares in CR Precast to Smooth Concept, at an aggregate consideration of HK\$1. Precast Group carried out all of the

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Group's precast manufacturing operations. The disposal was effected in order to concentrate the resources on cement and concrete business, which are the main business of the Group. The disposal was completed on December 28, 2007, on which date control of the Precast Group was passed to Smooth Concept.

The result of the precast manufacturing operations for the Track Record Period, which has been included in the consolidated statements of comprehensive income, were as follows:

	Year ended December 31,	
	2006	2007
	HK\$'000	HK\$'000
(Loss) profit for the year from discontinued operations		
Turnover	217,442	257,140
Cost of sales	(168,425)	(201,458)
Other income	1,123	2,585
Selling and distribution expenses	(9,775)	(25,915)
General and administrative expenses	(34,528)	(28,756)
Finance costs	(3,547)	(2,542)
Share of result of an associate	—	675
Profit before taxation	2,290	1,729
Taxation (charge) credit	(4,792)	384
(Loss) profit for the year	(2,502)	2,113
Cash flows from discontinued operations:		
Net cash generated from operating activities	815	4,445
Net cash used in investing activities	(5,516)	(4,965)
Net cash generated from financing activities	8,155	—
Net cash generated from (used in) discontinued operations	3,454	(520)

15. ASSETS CLASSIFIED AS HELD FOR SALE

On December 2, 2008, the Group entered into an agreement to dispose of the entire equity interest in Hongshuihe Pier Store at a consideration of RMB138,000,000 (equivalent to HK\$156,754,000). The assets and liabilities attributable to Hongshuihe Pier Store, which is expected to be sold within twelve months, have been classified as held for sale and are presented separately in the consolidated statement of financial position as at December 31, 2008. The disposal of the entire equity interest in Hongshuihe Pier Store was completed on April 6, 2009 and the gain on disposal of HK\$22,399,000 was recognized during the six months ended June 30, 2009 (see note 43).

The major classes of assets and liabilities of Hongshuihe Pier Store classified as held for sale as at December 31, 2008 are as follows:

	HK\$'000
Investment properties (Note 18)	156,754
Cash and bank balances	299
Assets classified as held for sale	157,053
Taxation payable	(325)
Deferred tax liabilities (Note 23)	(22,406)
Liabilities associated with assets classified as held for sale	(22,731)
Net assets classified as held for sale	134,322

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16. FIXED ASSETS

THE GROUP

	Land and buildings	Plant and equipment	Logistic equipment	Others	Construction in progress	Total
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
COST						
At January 1, 2006	594,164	1,387,702	352,151	138,027	1,098,935	3,570,979
Additions	12,045	81,559	46,660	9,624	1,204,509	1,354,397
Transfer upon completion of construction in progress	124,840	1,234,768	14,063	85,045	(1,458,716)	—
Disposals	(37)	(54,976)	(981)	(2,011)	—	(58,005)
Exchange adjustments	10,878	43,811	9,903	4,057	40,447	109,096
At December 31, 2006	741,890	2,692,864	421,796	234,742	885,175	4,976,467
Additions	3,441	54,941	49,309	11,901	1,240,866	1,360,458
Acquisition of subsidiaries (Note 42)	13,976	5,957	21,366	5,670	11,780	58,749
Transfer upon completion of construction in progress	45,684	1,039,644	78,732	37,935	(1,201,995)	—
Disposals	(23,543)	(78,776)	(28,879)	(6,323)	—	(137,521)
Disposal of subsidiaries (Note 43)	(25,731)	(42,464)	(16,125)	(3,085)	—	(87,405)
Exchange adjustments	33,574	182,941	24,870	15,062	63,232	319,679
At December 31, 2007	789,291	3,855,107	551,069	295,902	999,058	6,490,427
Additions	13,534	71,156	87,687	8,761	2,447,172	2,628,310
Acquisition of subsidiaries (Note 42)	33,156	—	30,971	4,447	18,326	86,900
Transfer upon completion of construction in progress	346,300	506,655	39,187	—	(892,142)	—
Disposals	(1,770)	(5,126)	(7,413)	(923)	—	(15,232)
Surplus on revaluation of a leasehold property (Note a)	17,810	—	—	—	—	17,810
Transferred to investment properties (Note a)	(42,281)	—	—	—	—	(42,281)
Exchange adjustments	35,873	238,120	33,050	18,618	64,883	390,544
At December 31, 2008	1,191,913	4,665,912	734,551	326,805	2,637,297	9,556,478
Additions	109	15,825	41,846	7,892	2,551,645	2,617,317
Transfer upon completion of construction in progress	291,851	1,462,611	26,127	5,681	(1,786,270)	—
Disposals	—	(1,464)	(487)	(72)	—	(2,023)
Exchange adjustments	(1,061)	(5,055)	(744)	(339)	(2,922)	(10,121)
At June 30, 2009	1,482,812	6,137,829	801,293	339,967	3,399,750	12,161,651

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	Land and buildings	Plant and equipment	Logistic equipment	Others	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At January 1, 2006	111,961	440,357	122,643	45,118	—	720,079
Charge for the year	20,494	126,902	25,731	12,577	—	185,704
Written back on disposals	—	(23,299)	(736)	(943)	—	(24,978)
Exchange adjustments	2,042	12,705	2,651	949	—	18,347
At December 31, 2006	134,497	556,665	150,289	57,701	—	899,152
Charge for the year	23,079	171,562	32,636	15,281	—	242,558
Impairment loss recognized in the consolidated statements of comprehensive income (Note b)	981	10,986	—	412	—	12,379
Written back on disposals	(20,202)	(68,179)	(11,141)	(5,620)	—	(105,142)
Written back on disposal of subsidiaries (Note 43)	(7,938)	(16,024)	(8,258)	(1,604)	—	(33,824)
Exchange adjustments	5,991	37,343	6,952	2,913	—	53,199
At December 31, 2007	136,408	692,353	170,478	69,083	—	1,068,322
Charge for the year	29,017	228,844	44,310	19,193	—	321,364
Written back on disposals	(202)	(2,426)	(5,470)	(542)	—	(8,640)
Eliminated on transfer to investment properties (Note a)	(6,281)	—	—	—	—	(6,281)
Exchange adjustments	5,580	40,950	7,616	3,304	—	57,450
At December 31, 2008	164,522	959,721	216,934	91,038	—	1,432,215
Charge for the period	16,604	131,758	25,912	10,929	—	185,203
Written back on disposals	—	(354)	(483)	(48)	—	(885)
Exchange adjustments	(123)	(946)	(173)	(77)	—	(1,319)
At June 30, 2009	181,003	1,090,179	242,190	101,842	—	1,615,214
CARRYING VALUES						
At December 31, 2006	607,393	2,136,199	271,507	177,041	885,175	4,077,315
At December 31, 2007	652,883	3,162,754	380,591	226,819	999,058	5,422,105
At December 31, 2008	1,027,391	3,706,191	517,617	235,767	2,637,297	8,124,263
At June 30, 2009	1,301,809	5,047,650	559,103	238,125	3,399,750	10,546,437

Notes:

- (a) During the year ended December 31, 2008, the Group rented out a leasehold property to an independent third party for rental income. Upon the change of use, the leasehold property was revalued at fair value with a surplus on revaluation of HK\$17,810,000, which has been credited to the property revaluation reserve, and that leasehold property with carrying value of HK\$38,000,000 was transferred to investment properties.
- (b) During the year ended December 31, 2007, the directors of the Company conducted a review of the Group's production assets and determined that the assets in Hongshuihe Cement were impaired, due to damage and obsolescence. Accordingly, impairment losses of HK\$12,379,000 have been recognized in respect of fixed assets.

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THE COMPANY

	Logistic equipment	Others	Total
	HK\$'000	HK\$'000	HK\$'000
COST			
At January 1, 2006	481	25	506
Additions	150	—	150
At December 31, 2006	631	25	656
Additions	260	79	339
Disposals	—	(15)	(15)
At December 31, 2007	891	89	980
Additions	—	134	134
Disposals	(150)	—	(150)
At December 31, 2008	741	223	964
Additions	1,759	28	1,787
Disposals	(482)	—	(482)
At June 30, 2009	2,018	251	2,269
ACCUMULATED DEPRECIATION			
At January 1, 2006	144	6	150
Charge for the year	189	3	192
At December 31, 2006	333	9	342
Charge for the year	316	19	335
Written back on disposals	—	(5)	(5)
At December 31, 2007	649	23	672
Charge for the period	108	59	167
Written back on disposals	(120)	—	(120)
At December 31, 2008	637	82	719
Charge for the period	80	34	114
Written back on disposals	(482)	—	(482)
At June 30, 2009	235	116	351
CARRYING VALUES			
At December 31, 2006	298	16	314
At December 31, 2007	242	66	308
At December 31, 2008	104	141	245
At June 30, 2009	1,783	135	1,918

Others mainly comprise furniture and equipment and leasehold improvements.

THE GROUP

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying values of land and buildings of the Group comprise:				
Properties in Hong Kong held on				
— long-term leases	18,720	18,231	—	—
— medium-term leases	192,172	187,410	182,648	180,264
Properties in Chinese Mainland held on				
— medium-term leases	379,494	447,184	844,685	1,121,487
— short-term leases	17,007	58	58	58
	607,393	652,883	1,027,391	1,301,809
Net interest capitalized included in construction in progress	25,770	25,856	49,355	51,997

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The Group has pledged fixed assets with the following carrying amounts to secure bank facilities granted to the Group.

	THE GROUP			
	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
Carrying amounts	280,377	272,770	—	—

17. PREPAID LEASE PAYMENTS

	THE GROUP			
	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
Total prepaid lease payments:				
Medium-term leasehold land in Chinese Mainland	151,071	187,622	300,679	335,018
Less: Amount charged within one year (included in other receivables (Note 27))	(3,917)	(4,974)	(7,278)	(7,930)
	147,154	182,648	293,401	327,088

Movements of prepaid lease payment are as follows:

THE GROUP

	HK\$'000
At January 1, 2006	110,615
Additions	39,715
Charge for the year	(3,265)
Exchange adjustments	4,006
At December 31, 2006	151,071
Additions	6,239
Acquisition of subsidiaries (Note 42)	23,756
Charge for the year	(4,106)
Exchange adjustments	10,662
At December 31, 2007	187,622
Additions	90,827
Acquisition of subsidiaries (Note 42)	16,017
Charge for the year	(6,684)
Exchange adjustments	12,897
At December 31, 2008	300,679
Additions	38,448
Charge for the period	(3,777)
Exchange adjustments	(332)
At June 30, 2009	335,018

The lease terms over which the prepaid lease payments are amortized ranged from 35 years to 50 years.

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18. INVESTMENT PROPERTIES

THE GROUP

	HK\$'000
At January 1, 2006	84,568
Exchange adjustments	3,115
At December 31, 2006	87,683
Exchange adjustments	6,283
At December 31, 2007	93,966
Change in fair value of investment properties	55,040
Transferred from fixed assets	36,000
Reclassified as assets held for sale (Note 15)	(156,754)
Exchange adjustments	6,748
At December 31, 2008	35,000
Change in fair value of investment property	(1,000)
At June 30, 2009	34,000

At December 31, 2006 and 2007, the investment properties of HK\$87,683,000 and HK\$93,966,000 comprised three plots of lands and pier structures (the "Pier"). During the year ended December 31, 2008, the Pier with fair value of HK\$156,754,000 was reclassified to assets held for sale.

The investment property of HK\$35,000,000 and HK\$34,000,000 as at December 31, 2008 and June 30, 2009, respectively, comprised solely a leasehold property in Hong Kong, which was transferred from fixed assets during the year ended December 31, 2008.

The above investment properties were valued by DTZ Debenham Tie Leung Limited ("DTZ"), an independent qualified professional valuer not connected with the Group. DTZ are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications.

All of the Group's leasehold interests in land held under operating leases are measured using the market sales comparable approach as at December 31, 2008 and June 30, 2009 and depreciated replacement cost approach as at December 31, 2006 and 2007, and are classified and accounted for as investment properties.

The carrying value of investment properties shown above comprises:

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land in Hong Kong held on long lease	—	—	35,000	34,000
Land in the Chinese Mainland held on medium-term lease	87,683	93,966	—	—
	<u>87,683</u>	<u>93,966</u>	<u>35,000</u>	<u>34,000</u>

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19. INTANGIBLE ASSETS

THE GROUP

	Goodwill	Mining rights	Total
	HK\$'000	HK\$'000 (Note c)	HK\$'000
COST			
At January 1, 2006	35,134	53,379	88,513
Additions	—	5,644	5,644
Acquisition of additional interests in subsidiaries (Note a)	9,979	—	9,979
Exchange adjustments	—	1,984	1,984
At December 31, 2006	45,113	61,007	106,120
Additions	—	2,234	2,234
Acquisition of subsidiaries (Note 42)	7,584	—	7,584
Acquisition of additional interests in subsidiaries (Note b)	590	—	590
Exchange adjustments	42	4,408	4,450
At December 31, 2007	53,329	67,649	120,978
Additions	—	13,411	13,411
Acquisition of subsidiaries (Note 42)	10,756	—	10,756
Impairment loss recognized	(1,301)	—	(1,301)
Exchange adjustments	57	4,345	4,402
At December 31, 2008	62,841	85,405	148,246
Additions	—	157	157
Exchange adjustments	(3)	(96)	(99)
At June 30, 2009	62,838	85,466	148,304
ACCUMULATED AMORTIZATION			
At January 1, 2006	—	2,963	2,963
Charge for the year	—	1,626	1,626
Exchange adjustments	—	162	162
At December 31, 2006	—	4,751	4,751
Charge for the year	—	2,045	2,045
Exchange adjustments	—	458	458
At December 31, 2007	—	7,254	7,254
Charge for the year	—	2,654	2,654
Exchange adjustments	—	531	531
At December 31, 2008	—	10,439	10,439
Charge for the period	—	1,365	1,365
Exchange adjustments	—	(13)	(13)
At June 30, 2009	—	11,791	11,791
CARRYING VALUES			
At December 31, 2006	45,113	56,256	101,369
At December 31, 2007	53,329	60,395	113,724
At December 31, 2008	62,841	74,966	137,807
At June 30, 2009	62,838	73,675	136,513

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- (a) On August 10, 2006, the Group acquired 0.7% equity interest in Hongshuihe Joint Stock from third parties not related to the Group, at an aggregate consideration of RMB2,000,000 (equivalent to HK\$1,993,000). The carrying amount of the acquired identifiable assets, liabilities and contingent liabilities recognized was HK\$680,000 and thus goodwill of HK\$1,313,000 was recognized.

On September 30, 2006, several minority shareholders of Hongshuihe Joint Stock withdrew their initial capital injections, amounting to RMB19,250,000 (equivalent to HK\$18,429,000). Under this circumstance, the Group had a deemed acquisition of 4.2% equity interest in Hongshuihe Joint Stock, amounting to HK\$9,763,000. Thus, goodwill of HK\$8,666,000 was recognized.

- (b) On January 20, 2007, the Group acquired 30% equity interest in Zhanjiang Cement from third parties not related to the Group, at an aggregate consideration of RMB7,720,000 (equivalent to HK\$7,692,000). The carrying amount of the acquired identifiable assets, liabilities and contingent liabilities recognized was HK\$7,102,000 and thus goodwill of HK\$590,000 was recognized.

- (c) The useful lives of mining rights ranged from 15 years to 50 years.

20. IMPAIRMENT TESTING ON GOODWILL WITH INDEFINITE USEFUL LIVES

The management regularly determines if there is impairment of any of its cash generating units containing goodwill with indefinite useful lives.

For the purpose of impairment testing, goodwill has been allocated to the cash generating units ("CGU") of cement and concrete reportable segments. The carrying amounts of goodwill allocated to the CGUs of cement and concrete reportable segments at December 31, 2006, 2007 and 2008 and June 30, 2009 are HK\$29,505,000, HK\$30,137,000, HK\$40,950,000 and HK\$40,948,000 and HK\$15,608,000, HK\$23,192,000, HK\$21,891,000 and HK\$21,890,000, respectively.

The recoverable amounts of cement and concrete CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period with growth rate of 3%, 3%, 3% and 3% for the years ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2009, respectively, and discount rate of 10%, 10%, 12% and 12% for the years ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2009, respectively. This growth rate is based on the industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The cash flow beyond the five year period are extrapolated using zero growth rate. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

During the year ended December 31, 2008, the Group recognized an impairment loss of HK\$1,301,000 in relation to goodwill arising on acquisition of Wenwei Concrete and Shengsheng Concrete Limited since both companies were inactive and not expected to operate in the foreseeable future.

Management believes that any reasonably possible change in any of these assumption would not cause the aggregate carrying amount of cement and concrete reportable segments to exceed the aggregate recoverable amounts of cement and concrete reportable segments.

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21. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE TO SUBSIDIARIES

Investments in subsidiaries

	THE COMPANY			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	960,040	960,040	1,047,070	813,547
Amounts due from subsidiaries				
Non-interest bearing portion (Note a)	1,222,950	2,745,544	3,025,129	3,970,451
Interest bearing portion (Note b)	216,442	144,829	15,958	15,940
	1,439,392	2,890,373	3,041,087	3,986,391
	2,399,432	3,850,413	4,088,157	4,799,938

Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured and repayable on demand.

	THE COMPANY			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-interest bearing portion	23,957	21,965	1,145,612	1,829,325
Interest bearing portion (Note c)	20,000	—	—	—
	43,957	21,965	1,145,612	1,829,325

Notes:

- (a) The non-interest bearing amounts due from subsidiaries represents net investments in subsidiaries.
- (b) The amounts due from subsidiaries are unsecured, repayable on demand and bear interest at 5% per annum for the years ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2009, respectively.
- (c) The amounts due to subsidiaries borne interest at 5% per annum before the amounts were fully repaid during the year ended December 31, 2006.

22. INTEREST IN AN ASSOCIATE/DEPOSITS FOR ACQUISITION OF AN ASSOCIATE

Interest in an associate

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted investment in an associate, at cost				
— Hong Kong	45,000	45,000	45,000	45,000
Less: Impairment loss recognized	(45,000)	(45,000)	(45,000)	(45,000)
Share of post-acquisition profits	54	49	48	48
	54	49	48	48

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The summarized financial information in respect of the Group's associate are set out below:

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	148	113	104	104
Total liabilities	(40)	(16)	(8)	(8)
Net assets	108	97	96	96
Group's share of net assets of an associate	54	49	48	48
Turnover	—	—	—	—
Loss for the year/period	(11)	(11)	(1)	—
Group's share of results of an associate for the year/period (Note)	(6)	(5)	(1)	—

Note: No result of the associate was shared by the Group during the six months ended June 30, 2009 as there was insignificant loss incurred by Man Wah during that period.

Impairment loss was recognized based on the recoverable amount of Man Wah, an associate of the Group, which was determined by the estimated discounted net cash flow from that associate. The carrying amount of interest in an associate was reduced to the respective recoverable amount as at December 31, 2006, 2007 and 2008 and June 30, 2009.

Deposits for acquisition of an associate

The amount represents the deposits paid for acquisition of 29.3% equity interest in 國投海南水泥有限公司 (SDIC Hainan Cement Company Limited) ("Hainan Cement"), a company established in the Chinese Mainland in the form of limited company and principally engaged in manufacture and sale of cement. The Group successfully won the bid at the public auction held by Hainan Hengji Fengye Auction Company Limited for the acquisition of 29.3% equity interest in Hainan Cement at a consideration of RMB269,000,000 (equivalent to HK\$305,218,000) and a tender deposit of RMB60,000,000 (equivalent to HK\$68,154,000) was made by the Group as at December 31, 2008 and included as other receivables (see note 27). The remaining balance of RMB209,000,000 (equivalent to HK\$237,064,000) was made by the Group during the six months ended June 30, 2009. The acquisition of 29.3% equity interest in Hainan Cement is still subject to government approval and therefore the payment of RMB269,000,000 (equivalent to HK\$305,218,000) is classified as deposits for acquisition of an associate as at June 30, 2009.

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23. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized and movements thereon during the Track Record Period:

	Accelerated tax depreciation	Interest on convertible bonds	Change in fair value of investment property	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP					
At January 1, 2006	(35,640)	(15,728)	(9,166)	15,689	(44,845)
Credited to consolidated statement of comprehensive income (Note 10)	1,931	2,047	—	8,147	12,125
Conversion of bonds	—	12,732	—	—	12,732
Reversal on termination of conversion rights	—	949	—	—	949
Exchange adjustments	—	—	(337)	296	(41)
At December 31, 2006	(33,709)	—	(9,503)	24,132	(19,080)
Credited (charged) to consolidated statement of comprehensive income (Note 10)	4,436	—	—	(11,645)	(7,209)
Attributable to change in tax rate (Note 10)	—	—	—	(353)	(353)
Disposal of subsidiaries (Note 43)	—	—	—	(3,362)	(3,362)
Exchange adjustments	—	—	(681)	59	(622)
At December 31, 2007	(29,273)	—	(10,184)	8,831	(30,626)
Credited (charged) to consolidated statement of comprehensive income (Note 10)	748	—	(11,419)	878	(9,793)
Attributable to change in tax rate	1,673	—	—	(316)	1,357
Acquisition of subsidiaries (Note 42)	(4,010)	—	—	—	(4,010)
Reclassified as held for sale (Note 15)	—	—	22,406	—	22,406
Exchange adjustments	(253)	—	(803)	223	(833)
At December 31, 2008	(31,115)	—	—	9,616	(21,499)
(Charged) credited to consolidated statement of comprehensive income	(2,054)	—	—	286	(1,768)
At June 30, 2009	(33,169)	—	—	9,902	(23,267)

Note:

Analyzed for reporting purposes as:

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax assets	24,132	8,831	9,616	9,902
Deferred tax liabilities	(43,212)	(39,457)	(31,115)	(33,169)
	(19,080)	(30,626)	(21,499)	(23,267)
				Tax losses
				HK\$'000
THE COMPANY				
At January 1, 2006 and December 31, 2006				4,550
Charged to statement of comprehensive income				(4,550)
At December 31, 2007, December 31, 2008 and June 30, 2009				—

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The Group had unused tax losses of approximately HK\$181.3 million, HK\$245.8 million, HK\$279.8 million and HK\$367.5 million as at December 31, 2006, 2007 and 2008 and June 30, 2009, available for offset against future profits. A deferred tax asset has been recognized in respect of approximately HK\$118.1 million, HK\$48.4 million, HK\$53.2 million and HK\$50.4 million as at December 31, 2006, 2007 and 2008 and June 30, 2009, of such losses. No deferred tax assets has been recognized in respect of the remaining HK\$63.2 million, HK\$197.4 million, HK\$226.6 million and HK\$317.1 million as at December 31, 2006, 2007 and 2008 and June 30, 2009, due to the unpredictability of future profit streams. Included in unrecognized tax losses of approximately HK\$18.0 million, HK\$71.5 million, HK\$71.3 million and HK\$138.5 million as at December 31, 2006, 2007 and 2008 and June 30, 2009 will expire five years from the year of origination, other tax losses may be carried forward indefinitely.

24. LONG TERM RECEIVABLES

	THE GROUP
	HK\$'000
At January 1, 2006, December 31, 2006 and December 31, 2007	—
Advances during the year (Note a)	118,916
At December 31, 2008	118,916
Advances during the year (Note b)	42,307
Exchange adjustments	(131)
At June 30, 2009	161,092

Notes:

- (a) During the year ended December 31, 2008, the Group entered into an agreement to advance a fund of RMB104,680,000 (equivalent to HK\$118,916,000) to a local government in the Chinese Mainland. The advance would be used by the local government to facilitate the transfer of a piece of land to a subsidiary of the Company for construction of production lines. The advance is unsecured and bears interest at the prevailing market borrowing rates determined by The People's Bank of China. The advance will be repayable through offsetting of certain taxes to be payable by the Company's subsidiary to the local government. The directors of the Company consider that the advance will be recovered from the local government starting from the third quarter of 2010 and expect to be fully recoverable on or before 2013.
- (b) During the six months ended June 30, 2009, the Group and a local government in Chinese Mainland entered into various agreements. Pursuant to the agreements, the Company's subsidiary advanced funds of RMB37,287,000 (equivalent to HK\$42,307,000) to facilitate the transfer of a piece of land to the Company's subsidiary for construction of its plant. The advances are unsecured and bear interest at the prevailing market borrowing rates determined by The People's Bank of China. The advances will be repayable by the local government from June 30, 2012 to June 30, 2014.

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25. INVENTORIES

	THE GROUP			
	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
	<u>333,936</u>	<u>362,488</u>	<u>379,789</u>	<u>527,986</u>

26. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANY/AN INTERMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES

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

The amount due from immediate holding company represents the cash advance to Smooth Concept and all the balances have been repaid during the year ended December 31, 2007.

The amount due from an intermediate holding company represents the cash advance to 華潤集團股份有限公司, which is the holding company of CRH. All the balances have been repaid during the year ended December 31, 2008.

The amounts due from fellow subsidiaries represents other receivables for miscellaneous operating expenses paid on behalf of other subsidiaries of CRH and the balances have been repaid during the year ended December 31, 2008.

27. TRADE AND OTHER RECEIVABLES

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables from (Note a)				
— 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	—	—	—
	<u>557,974</u>	<u>649,259</u>	<u>638,156</u>	<u>625,233</u>
Other receivables				
— prepayments and deposits (Note b)	28,808	39,124	128,792	124,370
— deposits paid to suppliers (Note c)	79,421	73,616	59,425	99,563
— value-added tax, government incentive receivables and others (Note d)	105,394	64,819	69,222	108,810
— receivables from government (Note e)	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 (Note 17)	3,917	4,974	7,278	7,930
— staff advances	4,325	5,651	4,929	7,079
— others (Note f)	15,207	25,521	24,232	15,403
	<u>270,291</u>	<u>247,405</u>	<u>316,664</u>	<u>383,563</u>

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	THE COMPANY			
	As at December 31,			As at
				June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other receivables	<u>344</u>	<u>563</u>	<u>3,248</u>	<u>1,889</u>

Notes:

- (a) During the Track Record Period, the Group has a policy of allowing an average credit period to its customers, except the customers of the Precast Group, ranging from 0 to 90 days from the date of issuance of invoices. In 2008, the Group has shortened the credit periods to certain customers of cement business to 0 to 30 days and that of concrete business to 0 to 60 days. The receivables from the customers of the Precast Group are normally aged from 1 to 2 years since the customers of the Precast Group are mainly constructors and the Group allows the constructors to settle partial balances after the completion of their construction projects. The following is an aged analysis of trade receivables at the end of each reporting period:

	THE GROUP			
	As at December 31,			As at
				June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 90 days	347,761	577,695	567,558	508,371
91 to 180 days	88,891	26,608	41,625	58,646
181 to 360 days	63,852	26,779	28,973	58,216
361 to 720 days	<u>57,470</u>	<u>18,177</u>	<u>—</u>	<u>—</u>
	<u>557,974</u>	<u>649,259</u>	<u>638,156</u>	<u>625,233</u>

Ageing of trade receivables which are past due but not impaired

	THE GROUP			
	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	<u>57,260</u>	<u>1,044</u>	<u>—</u>	<u>—</u>
Total	<u>404,114</u>	<u>195,681</u>	<u>282,247</u>	<u>346,709</u>

The Group does not hold any collateral over these balances which are past due. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

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Movement in the allowance for doubtful debts

	THE GROUP			
	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	<u>40,476</u>	<u>92,381</u>	<u>72,169</u>	<u>53,253</u>

In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further allowance required in excess of the current amount allowance for doubtful debts.

- (b) Prepayments and deposits mainly comprise the prepayments for transportation expenses, rental deposits for the plants located in Hong Kong and the rental and management fee deposits paid for staff quarters in the Chinese Mainland. Included in prepayments and deposits as at December 31, 2008 was a tender deposit of RMB60,000,000 (equivalent to HK\$68,154,000) for acquisition of 29.3% equity interest in Hainan Cement and the amount was reclassified as deposits for acquisition of an associate as at June 30, 2009 (see note 22) upon the signing of the bidding agreement between the Group and the vendor, and the settlement of the remaining balance of the consideration of RMB209,000,000 (equivalent to HK\$237,064,000) by the Group.
- (c) Deposits paid to suppliers represent the deposits paid for purchase of raw materials.
- (d) Value-added tax ("VAT") and other tax recoverables represent the input VAT on purchase of raw materials and the government incentives receivables on the VAT (Note 50) and other tax recoverables.
- (e) Receivables from the government of the Chinese Mainland mainly represent the advances by the Group to 貴港市覃塘區人民政府 to facilitate the construction of production lines by Guigang Cement. In the opinion of the directors of the Company, the amounts will be fully recoverable within the next twelve months from June 30, 2009.
- (f) Others represent the interest receivables and temporary payments for constructors and customers.

28. PLEDGED BANK DEPOSITS

Pledged bank deposits of HK\$14,560,000, HK\$1,129,000, HK\$29,000 and HK\$1,155,705,000 as at December 31, 2006, 2007 and 2008 and June 30, 2009, have been pledged to secure banking facilities. The remaining deposits of HK\$15,534,000, HK\$8,002,000, HK\$9,142,000 and HK\$9,198,000 as at December 31, 2006, 2007 and 2008 and June 30, 2009, have been pledged to secure sales contracts to customers and legal actions against customers.

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29. CASH AND BANK BALANCES

Cash and bank balances comprise cash held by the Group and short-term bank deposits with maturity within three months from initial inception.

	THE GROUP			
	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
	%	%	%	%
Range of interest rates of the bank deposits	<u>0.01 - 4.55</u>	<u>0.01 - 5.60</u>	<u>0.01 - 3.10</u>	<u>0.01 - 3.60</u>

Included in bank balances are the following amounts denominated in currencies other than the functional currency of the entity to which they related.

	THE GROUP			
	As at December 31,			At June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	27,226	23,472	39,100	501,508
RMB	5,486	9,638	—	—
United States Dollars ("USD")	—	—	—	57,965
Euro	—	—	—	32,694

30. TRADE AND OTHER PAYABLES

	THE GROUP			
	As at December 31,			At June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables to (Note a)				
— third parties	448,492	586,930	785,190	726,002
— fellow subsidiaries	20,593	—	—	—
	<u>469,085</u>	<u>586,930</u>	<u>785,190</u>	<u>726,002</u>
Other payables				
— payables to constructors and for the acquisition of fixed assets (Note b)	192,757	244,935	330,669	396,960
— payables for acquisition of subsidiaries (Note 42)	—	38,545	6,990	6,990
— deposits from customers	34,976	93,094	125,045	153,865
— guarantee deposits from suppliers (Note c)	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 (Note d)	27,545	40,743	39,941	44,355
— others (Note e)	8,873	32,937	71,624	69,138
— Advanced receipts in respect of assets classified as held for sale (Note f)	—	—	156,754	—
	<u>392,604</u>	<u>663,389</u>	<u>889,235</u>	<u>880,663</u>

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	THE COMPANY			
	As at December 31,			At June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables				
— interest payables	3,300	3,267	1,040	577
— salaries and staff welfare payables	3,800	17,000	10,972	3,497
— other accrued expenses	1,848	2,287	1,920	1,007
	<u>8,948</u>	<u>22,554</u>	<u>13,932</u>	<u>5,081</u>

Notes:

- (a) The Group normally receives credit period of 30 days to 90 days from its suppliers. The following is an aged analysis of trade payables at the end of each reporting period:

	THE GROUP			
	As at December 31,			At June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 90 days	314,816	448,542	693,538	641,546
91 to 180 days	70,902	40,027	58,193	42,690
181 to 360 days	52,358	14,582	10,871	26,518
361 to 720 days	31,009	83,779	22,588	15,248
	<u>469,085</u>	<u>586,930</u>	<u>785,190</u>	<u>726,002</u>

- (b) Payables to constructors represent the deposit received from constructors for the bid of construction projects, construction costs payables after the completion of constructions in accordance with the terms in agreements and the quality guarantee money retained by the Group which will be refunded to the constructors from 3 months to 1 year after the completion of the constructions. Payables for the acquisition of fixed assets represent the unpaid balances for the fixed assets acquired.
- (c) Guarantee deposits from suppliers represent the quality guarantee money retained by the Group for the raw materials provided by suppliers and the deposits will be refunded in three months after the delivery.
- (d) Accrued expenses mainly comprise utility expenses, repair and maintenance expenses and audit fees.
- (e) Others mainly comprise interest payables, reimbursements to staff and other miscellaneous advances.
- (f) Advanced receipts in respect of assets classified as held for sale represent the receipt of the consideration for the disposal of entire equity interest in Hongshuihe Pier Store.

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31. PROVISIONS

	HK\$'000
THE GROUP	
At January 1, 2006	53,576
Paid during the year	(4,041)
At December 31, 2006	49,535
Additions	3,845
Paid during the year	(4,505)
At December 31, 2007	48,875
Paid during the year	(4,426)
At December 31, 2008	44,449
Paid during the period	(2,398)
At June 30, 2009	42,051

Analyzed for reporting purposes as:

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current liabilities	46,186	44,916	40,588	38,195
Current liabilities	3,349	3,959	3,861	3,856
	49,535	48,875	44,449	42,051

The provisions relate to payments to retired or temporarily laid-off employees. Such payment comprises various benefits including old age benefits, subsidies for retirement and social medical benefits.

32. AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY/MINORITY SHAREHOLDERS OF SUBSIDIARIES/FELLOW SUBSIDIARY

The amount due to immediate holding company was unsecured and repayable on demand and bore a variable interest rate, which was repriced periodically based on the benchmark interest rate as stipulated by financial institutions. The interest rate was 4.9% per annum up to the date the amount was repaid or capitalized during the year ended December 31, 2008. The amount represented the cash advance from Smooth Concept for the year ended December 31, 2007. An amount of HK\$866,000,000 has been capitalized by way of issuance of 1 share of the Company to Smooth Concept and the remaining balance of HK\$682,056,000 has been repaid to Smooth Concept during the year ended December 31, 2008.

The amounts due to minority shareholders of subsidiaries were unsecured, interest-free and repayable on demand. The amounts represented the dividend payables to minority shareholders and the amounts have been fully settled during the year ended December 31, 2007.

The amount due to a fellow subsidiary was unsecured, interest-free and repayable on demand. The amount has been fully settled during the six months ended June 30, 2009.

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33. BANK LOANS

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans are repayable as follows:				
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
	<u>2,887,865</u>	<u>2,004,281</u>	<u>4,497,575</u>	<u>8,708,873</u>
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	<u>1,081,426</u>	<u>818,647</u>	<u>1,686,812</u>	<u>4,810,987</u>
Secured	180,000	160,000	—	1,146,170
Unsecured	<u>2,707,865</u>	<u>1,844,281</u>	<u>4,497,575</u>	<u>7,562,703</u>
	<u>2,887,865</u>	<u>2,004,281</u>	<u>4,497,575</u>	<u>8,708,873</u>

Bank loans are arranged at fixed rates as well as floating rates. The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank loans from 3.2% to 5.8%, 4.0% to 6.7%, 1.4% to 7.6% and 1.1% to 5.4% per annum for the year ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2009, respectively.

During the six months ended June 30, 2009, Fuchuan Cement and Shangsi Cement entered into entrustment loan agreements with China Resources SZITIC Trust Co. Ltd. ("CR Trust"), a subsidiary of CRH, and a bank. CR Trust provided principal amounts of RMB440.6 million (equivalent to HK\$499.9 million) and RMB406.9 million (equivalent to HK\$461.7 million) as loans to Fuchuan Cement and Shangsi Cement, respectively. As at June 30, 2009, the total outstanding borrowings for the entrustment loans amounted to HK\$681.5 million.

The analysis of the terms of the bank loans as follows:

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fixed rate borrowings	468,308	69,407	113,590	907,418
Variable rate borrowings	<u>2,419,557</u>	<u>1,934,874</u>	<u>4,383,985</u>	<u>7,801,455</u>
	<u>2,887,865</u>	<u>2,004,281</u>	<u>4,497,575</u>	<u>8,708,873</u>

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Included in bank loans are the following amounts denominated in currencies other than the functional currency of the entity to which they relate.

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	180,000	160,000	420,000	905,000
Japanese yen ("JPY")	—	—	11,053	—
	THE COMPANY			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unsecured bank loans repayable within one year	560,000	550,000	431,053	485,000

The bank loans held by the Company are denominated in HK\$ and the average interest rate paid was 3.7%, 4.8%, 1.8% and 1.4% per annum for the year ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2009, respectively.

34. CONVERTIBLE BONDS

The unsecured zero coupon convertible bonds ("Convertible Bonds") were issued on January 13, 2005 by a subsidiary of the Company, China Resources Cement Finance Limited, and are convertible into shares of the Company, at the initial conversion price of HK\$2.00 per share at any time after the date of issue. Unless previously converted or redeemed, the Group would redeem the Convertible Bonds on January 12, 2010.

The net proceeds received from the issue of the convertible bonds have been split between a liability component and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group, as follows:

	HK\$'000
THE GROUP	
Nominal value of convertible bonds issued	800,000
Equity component	(109,913)
Liability component at date of issue	690,087
Liability component at January 1, 2006	710,009
Interest charged	11,699
Conversion of bonds to shares	(670,122)
Redeemed during the year	(40)
Settlement by the issue of shares under the Scheme of Arrangement (Note 40(ii))	(51,546)
Liability component at December 31, 2006, December 31, 2007, December 31, 2008 and June 30, 2009	—

The interest charged for the year ended December 31, 2006 was calculated at an effective interest rate of 3% per annum to the liability component which was determined when the bonds were issued.

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In accordance with an extraordinary resolution passed by a convertible bondholder with not less than three-fourth of the total outstanding convertible bonds on May 17, 2006, the conversion rights attaching to convertible bonds were suspended with effect on July 19, 2006.

35. SHARE CAPITAL

	<u>Number of shares</u>	<u>Amounts</u> HK\$'000
Ordinary shares of HK\$0.10 each:		
Authorized:		
At December 31, 2006, December 31, 2007, December 31, 2008 and June 30, 2009	1,000,000,000	100,000
Issued and fully paid:		
At January 1, 2006	381,863,461	38,186
Conversion of bonds into shares	371,436,000	37,144
Cancellation of existing shares under the Scheme of Arrangement (Note a)	(753,299,461)	(75,330)
Issue of new shares under the Scheme of Arrangement (Note a)	753,299,461	75,330
Issue of new shares (Note b)	28,488,000	2,849
At December 31, 2006 and December 31, 2007	781,787,461	78,179
Issue of a new share (Note c)	1	—
At December 31, 2008 and June 30, 2009	781,787,462	78,179

Notes:

- (a) All shares of the Company in issue are cancelled on July 31, 2006 and are followed by the immediate re-issue of the same number of shares of the Company to Smooth Concept. Details are set out in note 40.
- (b) On August 24, 2006, the Company issued 28,488,000 shares of HK\$0.10 each, credited as fully paid at par, as the settlement to Smooth Concept of HK\$56,976,000 for the redemption of the Convertible Bonds held by Smooth Concept under the Scheme of Arrangement as set out in note 40(ii).
- (c) On June 30, 2008, the Company issued 1 share of HK\$0.10 each by way of capitalization of an amount of HK\$866,000,000 owed to Smooth Concept.

These shares rank pari passu with the then existing issued shares in respect of ranking for dividends, capital and voting rights attached thereto.

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36. RESERVES

THE COMPANY

	Share premium	Share-based compensation reserve	Translation reserve	(Accumulated losses) retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2006	962,125	11,446	—	(2,518)	971,053
Profit for the year	—	—	—	33,208	33,208
Conversion of convertible bonds	705,728	—	—	—	705,728
Issue of new shares (Note 35(b))	54,128	—	—	—	54,128
Transfer of reserve (Note 40(iii))	—	(11,446)	—	11,446	—
At December 31, 2006	1,721,981	—	—	42,136	1,764,117
Loss for the year	—	—	—	(65,363)	(65,363)
At December 31, 2007	1,721,981	—	—	(23,227)	1,698,754
Loss for the year	—	—	—	(68,103)	(68,103)
Issued of new share (Note 35(c))	866,000	—	—	—	866,000
Interim dividend paid	(45,985)	—	—	—	(45,985)
Exchange differences	—	—	16,308	—	16,308
At December 31, 2008	2,541,996	—	16,308	(91,330)	2,466,974
Loss for the period	—	—	—	(17,915)	(17,915)
Exchange differences	—	—	451	—	451
At June 30, 2009	2,541,996	—	16,759	(109,245)	2,449,510

37. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged in the Track Record Period.

The capital structure of the Group consists of debts, which includes the bank loans disclosed in note 33, and equity attributable to shareholders of the Company, comprising issued share capital and reserves.

The management of the Company review the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associates with each class of capital. Based on recommendations of the management, the Group will balance its overall structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debts.

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38. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	930,820	1,235,429	1,220,326	2,870,818
Financial liabilities				
Amortized cost	3,609,815	4,638,205	5,802,164	10,093,196
THE COMPANY				
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	1,485,054	2,952,761	3,096,338	4,011,114
Financial liabilities				
Amortized cost	611,057	2,146,832	1,599,593	2,318,399

b. Financial risk management objectives and policies

The Group's major financial assets and liabilities include retention monies receivable, amount due from immediate holding company/an intermediate holding company, amounts due from fellow subsidiaries, trade and other receivables, long term receivables, pledged bank deposits, cash and bank balances, trade and other payables, amount due to immediate holding company/a fellow subsidiary, amounts due to minority shareholders of subsidiaries and bank loans and convertible bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group is exposed to interest rate risk mainly from its long term and short term borrowings. Borrowings at fixed and variable interest rates expose the Group to fair value interest rate risk and cash flow interest rate risk respectively. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The Group

The Group's sensitivity to interest rate risk has been determined based on the exposure to interest rates for the amount due to immediate holding company and bank loans outstanding at the end of each reporting period.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's profit would have decreased/increased by approximately HK\$12,098,000,

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HK\$17,415,000, HK\$19,837,000 and HK\$18,061,000 for the year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively.

The Company

The Company's sensitivity to interest rate risk has been determined based on the exposure to interest rates for the amount due to immediate holding company and bank loans at the end of each reporting period.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Company's profit would have decreased/increased by approximately HK\$3,782,000, HK\$3,474,000, HK\$2,155,000 and HK\$1,213,000 for the year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009, respectively.

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 purpose and should not be considered a projection of the future profits or losses.

Currency risk

The Group's exposure 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 related (see notes 29 and 33 for details). The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, management monitors the related foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

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Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase or decrease in the RMB against HK\$, USD, Euro and JPY. 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 below indicates an increase or a decrease in post-tax profit where the RMB strengthens 5% against HK\$, USD, Euro and JPY. For a 5% weakening of the RMB against HK\$, USD, Euro and JPY, there would be an equal and opposite impact on the post-tax profit and other equity.

	THE GROUP			
	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
<u>Impact on profit</u>				
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	—
	<u>—</u>	<u>—</u>	<u>953</u>	<u>—</u>
<u>Impact on other equity</u>				
if RMB strengthens against HK\$	—	—	81,027	101,498
	<u>—</u>	<u>—</u>	<u>81,027</u>	<u>101,498</u>
	THE COMPANY			
	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
<u>Impact on profit</u>				
if RMB strengthens against HK\$	—	—	20,846	22,641
if RMB strengthens against JPY	—	—	953	—
	<u>—</u>	<u>—</u>	<u>953</u>	<u>—</u>

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the end of each reporting period in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimize the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group also reviews the recoverable amount of each individual trade receivable regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk on trade receivables is significantly reduced.

In addition, the Group is also exposed to credit risk in respect of guarantees given to banks for banking facilities granted to its fellow subsidiaries as at December 31, 2006, 2007 and 2008. In the opinion of the directors of the Company, the credit risk on guarantees given to banks is considered insignificant as its fellow subsidiaries are in good financial positions.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

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Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows (see note 45 for details of cash and cash equivalents of the Group at the end of each reporting period). The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As at June 30, 2009, the Group has available unutilized banking facilities of HK\$2,273.8 million.

The Group has net current liabilities as at December 31, 2006, 2007 and 2008 and June 30, 2009, which exposed the Group to liquidity risk. In order to mitigate the liquidity risk, the management regularly monitors the operating cash flow of the Group to meet its liquidity requirements in the short and long term.

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

Liquidity and interest risk tables

	THE GROUP					
	Weighted average 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
		<u>2,635,781</u>	<u>595,827</u>	<u>618,415</u>	<u>3,850,023</u>	<u>3,609,815</u>
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
		<u>3,980,064</u>	<u>369,155</u>	<u>506,029</u>	<u>4,855,248</u>	<u>4,638,205</u>
As at December 31, 2008						
Trade payables	—	785,190	—	—	785,190	785,190
Other payables	—	508,483	—	—	508,483	508,483
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
Amount due to a fellow subsidiary	—	10,916	—	—	10,916	10,916
		<u>4,275,618</u>	<u>912,961</u>	<u>984,343</u>	<u>6,172,922</u>	<u>5,802,164</u>
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
		<u>5,629,563</u>	<u>2,023,178</u>	<u>3,434,968</u>	<u>11,087,709</u>	<u>10,093,196</u>

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	THE COMPANY			
	Weighted average interest rate	Within 1 year	Total contractual undiscounted cash flow	Carrying amount
	%	HK\$’000	HK\$’000	HK\$’000
As at December 31, 2006				
Other payables	—	7,100	7,100	7,100
Amounts due to subsidiaries	—	43,957	43,957	43,957
Bank loans				
— Variable rate	3.7	580,720	580,720	560,000
		<u>631,777</u>	<u>631,777</u>	<u>611,057</u>
As at December 31, 2007				
Other payables	—	20,267	20,267	20,267
Amounts due to subsidiaries	—	21,965	21,965	21,965
Bank loans				
— Variable rate	4.8	576,400	576,400	550,000
Amount due to immediate holding company	4.9	1,630,775	1,630,775	1,554,600
		<u>2,249,407</u>	<u>2,249,407</u>	<u>2,146,832</u>
As at December 31, 2008				
Other payables	—	12,012	12,012	12,012
Amounts due to subsidiaries	—	1,145,612	1,145,612	1,145,612
Amounts due to a fellow subsidiary	—	10,916	10,916	10,916
Bank loans				
— Variable rate	1.8	433,235	433,235	431,053
		<u>1,601,775</u>	<u>1,601,775</u>	<u>1,599,593</u>
As at June 30, 2009				
Other payables	—	4,074	4,074	4,074
Amounts due to subsidiaries	—	1,829,325	1,829,325	1,829,325
Bank loans				
— Variable rate	1.4	491,790	491,790	485,000
		<u>2,325,189</u>	<u>2,325,189</u>	<u>2,318,399</u>

39. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair values of financial assets and financial liabilities of the Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

40. PRIVATIZATION OF THE COMPANY

On March 29, 2006 (the “Proposed Date”), CRH, through its wholly-owned subsidiary, Smooth Concept, put forward (i) to the shareholders of the Company a scheme proposing the privatization of the Company (the “Scheme of Arrangement”) which, would result in the Company becoming a wholly-owned subsidiary of Smooth Concept; and (ii) to the convertible bondholders (the “Convertible Bondholders”) and the optionholders (the “Optionholders”) of the Company, respectively, the offer by Smooth Concept to the Convertible Bondholders to acquire the outstanding convertible bonds (the Convertible Bond Offer”) and the payment by Smooth Concept to all Optionholders whose options have lapsed upon the effective of the Scheme of Arrangement (the “Option Lapsing Payment”).

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(i) The Scheme of Arrangement

Under the Scheme of Arrangement, shareholders of the Company would receive from Smooth Concept in consideration for the cancellation of their shares of HK\$2.45 ("Cash Alternative") or one share of Smooth Concept (the "Share Alternative"), credited as fully paid up, for every share of the Company they held. Smooth Concept was wholly-owned by CRH and was incorporated for the purpose of the Scheme of Arrangement.

CRH was the legal and, or beneficial owner of 270,132,647 shares of the Company, while all other shareholders (the "Public Shareholders") of the Company collectively held 111,730,814 shares of the Company on the Proposed Date. The cancellation of the shares of the Company was followed by the immediate re-issue of the same number shares of the Company to Smooth Concept. In consideration for the cancellation of the shares of the Company held by CRH, CRH was issued the same number of shares in Smooth Concept, credit as fully paid. Upon the effective of the Scheme of Arrangement, Public Shareholders holding 111,613,277 shares of the Company accepted the Cash Alternative and the remaining Public Shareholders holding 117,537 shares of the Company were issued the shares of Smooth Concept.

(ii) The Convertible Bond Offer

The Company had, through its wholly-owned subsidiary, China Resources Cement Finance Limited, in issue and outstanding HK\$799,888,000 principal amount of convertible bonds (the "Convertible Bonds") as at the Proposed Date. There was HK\$57,016,000 out of HK\$799,888,000 Convertible Bonds held by the Convertible Bondholders other than Firstsuccess Investments Limited ("Firstsuccess"). Under the Scheme of Arrangement, Smooth Concept would make the Convertible Bond Offer to acquire all the Convertible Bonds held by the Convertible Bondholders other than Firstsuccess at a consideration of HK\$4,900 in cash for any HK\$4,000 principal amount of the Convertible Bonds (or in a proportionate amount for any lesser or greater principal amount of the Convertible Bonds held). Convertible Bondholders who held HK\$56,976,000 principal amount of Convertible Bonds accepted the Convertible Bond Offer. In accordance with the Scheme of Arrangement, all the outstanding Convertible Bonds can no longer be converted into the shares of the Company and will be early redeemed by the Company at the principal amount of the Convertible Bonds. The HK\$56,976,000 Convertible Bonds held by Smooth Concept are subsequently settled by 28,488,000 shares of the Company and HK\$40,000 Convertible Bonds are repaid in cash.

Firstsuccess is a wholly-owned subsidiary of CRH which held HK\$742,872,000 in principal amount of the Convertible Bonds as at the Proposed Date. Firstsuccess converted all of its Convertible Bonds into 371,436,000 shares of the Company and were subsequently transformed into the same number of shares of Smooth Concept upon the effective of the Scheme of Arrangement.

(iii) Option Lapsing Payment

Upon the approval of the Scheme of Arrangement by the Grand Court of the Cayman Islands (the "Court") and become effective, any outstanding Options would automatically lapse in accordance with the terms of their issue. Just before the Scheme of Arrangement became effective, there were 8,370,000 and 26,070,000 outstanding share options with exercise prices of HK\$1.660 and HK\$2.325 per option, respectively.

Upon the Scheme of Arrangement became effective, Smooth Concept paid Optionholders the difference between the exercise price of the options and the cash alternative (the "Option Lapsing Payment") amounting to HK\$9,871,000.

Once the options automatically lapse, the amount of HK\$11,446,000 previously recognized in the share-based compensation reserve has transferred to retained profits.

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A copy of the order of the Court, issued under Section 86 of the Companies Law, after the Scheme of Arrangement was sanctioned was confirmed by the Court on July 24, 2006 (Cayman Islands time), was delivered to the Registrar of Companies in Cayman Islands for registration on the same day. Accordingly, the Scheme of Arrangement became effective on July 25, 2006 (Hong Kong time). The listing of the shares of the Company on the Stock Exchange was withdrawn on July 26, 2006.

41. SHARE OPTION SCHEME

On June 20, 2003, the Company's then sole shareholder adopted the Company's first share option scheme (the "Scheme"). The Scheme was deemed to be adopted on July 29, 2003, and will expire on July 29, 2013. The purpose of the Scheme is to provide the participants ("Participants") with the opportunity to acquire proprietary interests in the Company and to encourage Participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Under the Scheme, the board of directors of the Company may grant options to Participants including executive or non-executive directors of the Company; any discretionary object of a discretionary trust established by any employee, executive or non-executive director of the Company; any executives and employees of the Company, its subsidiaries; substantial shareholders of the Company and associates of any of such substantial shareholders; consultants, professional and other advisers to the Group; chief executive; substantial shareholder of the Company; associated companies of the Group; associates of the directors, chief executive and substantial shareholder of the Company.

Subject to the prevailing requirements of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), the subscription price shall be such price determined by the board of directors at its absolute discretion. The maximum entitlement of each Participant under the Scheme is equivalent to the maximum limit permitted under the prevailing Listing Rules.

The offer of a grant of share options under the Scheme may be accepted within 14 days from the date of the offer together with the payment of nominal consideration of HK\$1 in total by the grantee.

Share options granted are vested for a period of 10 years immediately after the date of grant and a certain percentage of shares to be subscribed under the options granted will commence to be exercisable in each calendar year after the date of grant.

Options granted to a Participant are lapsed if the Participant ceased to be an eligible participant pursuant to the Scheme before the options are vested.

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Details of the share options granted and outstanding under the Scheme during the year ended December 31, 2006 were as follows:

Name of Participant	Date of grant	Exercise price	Number of share issuable under the options granted			
			Outstanding at January 1, 2006	Lapsed during the year	Cancelled during the year (Note 39(iii))	Outstanding at December 31, 2006
		HKS	'000	'000	'000	'000
Directors	December 5, 2003	2.325	14,300	—	(14,300)	—
	December 16, 2004	1.660	4,800	—	(4,800)	—
Employees other than Directors ..	December 5, 2003	2.325	10,830	(100)	(10,730)	—
	December 16, 2004	1.660	3,570	—	(3,570)	—
Other participants	December 5, 2003	2.325	1,040	—	(1,040)	—
			<u>34,540</u>	<u>(100)</u>	<u>(34,440)</u>	<u>—</u>

The options granted on December 5, 2003 are exercisable as follows:

From	To	Number exercisable
December 5, 2004	December 4, 2005	Up to 20% of the share options granted
December 5, 2005	December 4, 2006	Up to 40% of the share options granted, less the number of shares in respect of which the option had been previously exercised
December 5, 2006	December 4, 2007	Up to 60% of the share options granted, less the number of shares in respect of which the option had been previously exercised
December 5, 2007	December 4, 2008	Up to 80% of the share options granted, less the number of shares in respect of which the option had been previously exercised
December 5, 2008	December 4, 2013	The remaining share options which has not been exercised

The options granted on December 16, 2004 are exercisable as follows:

From	To	Number exercisable
December 16, 2005	December 15, 2006	Up to 25% of the share options granted
December 16, 2006	December 15, 2007	Up to 50% of the share options granted, less the number of shares in respect of which the option had been previously exercised
December 16, 2007	December 15, 2008	Up to 75% of the share options granted, less the number of shares in respect of which the option had been previously exercised
December 16, 2008	December 15, 2014	The remaining share options which have not been exercised

None of the options granted by the Company has been exercised during the year ended December 31, 2006 and all share options were cancelled on July 19, 2006 under the Scheme of arrangement, as set out in note 40(iii).

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42. ACQUISITION OF SUBSIDIARIES

For the year ended December 31, 2006

There was no acquisition of subsidiaries, which has been accounted for using the acquisition method of accounting, for the year ended December 31, 2006.

For the year ended December 31, 2007

On December 28, 2007, the Group acquired 100% equity interest in Fuzhou Development Zone Shun Li Building Materials Company Limited (newly called as Fuzhou Cement), which is engaged in the manufacture and sale of cement and related business in Chinese Mainland, at an aggregate consideration of RMB19,641,000 (equivalent to HK\$21,120,000) from a third party not related to the Group. The transaction has been accounted for using the acquisition method of accounting.

The aggregate net assets acquired in the transaction and the discount on acquisition arising on the acquisition are as follows:

	Acquiree's carrying amount before acquisition	Fair value adjustments	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Fixed assets	38,368	(154)	38,214
Prepaid lease payments	3,659	20,097	23,756
Cash and bank balances	1,077	—	1,077
Trade payables	(3,115)	—	(3,115)
Other payables	(36,133)	—	(36,133)
	<u>3,856</u>	<u>19,943</u>	<u>23,799</u>
Discount on acquisition			(2,679)
Total consideration			<u>21,120</u>
Discharged by:			
Consideration included in other payables			<u>21,120</u>
Net inflow of cash and cash equivalents:			
Cash and bank balances acquired			<u>1,077</u>

The discount on acquisition arising from the acquisition of Fuzhou Cement was attributable to the ability of the Group in negotiating the agreed terms of transaction with the vendor.

Fuzhou Cement has not contributed to the Group's turnover and profit before taxation during the period from the date of acquisition to December 31, 2007.

On October 28, 2007, the Group acquired 100% equity interest in Heyuan Concrete, which is engaged in the manufacture and sale of concrete and related business in the Chinese Mainland from a third party not related to the Group, at a consideration of approximately RMB16,980,000 (equivalent to HK\$17,425,000) after netting off of approximately RMB10,000,000 (equivalent to HK\$10,265,000), which represented the amount waived by the vendor due to the acceptance of certain liabilities of Heyuan Concrete by the Group. According to the acquisition agreement, those liabilities should be born by the vendor. This transaction has been accounted for using the acquisition method of accounting.

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The aggregate net assets acquired in the transaction and the goodwill arising on the acquisition are as follows:

	Acquiree's carrying amount before acquisition	Fair value adjustment	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Fixed assets	20,091	444	20,535
Inventories	300	—	300
Other receivables	431	—	431
Cash and bank balances	332	—	332
Other payables	(3,443)	—	(3,443)
Bank loans	(8,314)	—	(8,314)
	<u>9,397</u>	<u>444</u>	<u>9,841</u>
Goodwill on acquisition			<u>7,584</u>
Total consideration			<u>17,425</u>
Discharged by:			
Consideration included in other payables			<u>17,425</u>
Net inflow of cash and cash equivalents:			
Cash and bank balances acquired			<u>332</u>

The goodwill on acquisition of Heyuan Concrete represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of the Chinese Mainland that are provided by the above newly acquired subsidiary.

Heyuan Concrete contributed HK\$2.5 million to the Group's turnover and HK\$2.9 million loss to the Group's profit before taxation during the period from the date of acquisition to December 31, 2007.

If the acquisitions of Fuzhou Cement and Heyuan Concrete had been completed on January 1, 2007, total Group's turnover and profit for the year ended December 31, 2007 would have been HK\$3,746 million and HK\$358 million, respectively.

For the year ended December 31, 2008

On April 2, 2008, the Group acquired 100% equity interest in Tino Investments Limited at an aggregate consideration of RMB96,300,000 (equivalent to HK\$106,989,000). Tino Investments Limited is an investment holding company and its subsidiaries are engaged in the manufacture and sale of cement and related business in the Chinese Mainland. The transaction has been accounted for using the acquisition method of accounting.

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The aggregate net assets acquired in the transaction and the goodwill on acquisition arising on the acquisition are as follows:

	Acquiree's carrying amount before acquisition	Fair value adjustment	Fair value
	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:			
Fixed assets	82,534	4,366	86,900
Prepaid lease payments	4,353	11,664	16,017
Inventories	1,846	—	1,846
Cash and bank balances	956	—	956
Trade payables	(2,998)	—	(2,998)
Other payables	(2,478)	—	(2,478)
Deferred tax liabilities	—	(4,010)	(4,010)
	<u>84,213</u>	<u>12,020</u>	<u>96,233</u>
Goodwill on acquisition			<u>10,756</u>
Total consideration satisfied by cash			<u>106,989</u>
Net outflow of cash and cash equivalents:			
Total cash paid			(106,989)
Cash and bank balances acquired			<u>956</u>
			<u>(106,033)</u>

The goodwill on acquisition of Tino Investments Limited and its subsidiaries represents value obtainable from synergies with the Group and opportunities for the Group to bring its expertise to the proposition and access to the region of the Chinese Mainland that are provided by the above newly acquired subsidiaries.

Tino Investments Limited and its subsidiaries have not contributed to the Group's turnover but contributed HK\$1 million to the Group's profit before taxation during the period from the date of acquisition to December 31, 2008.

If the acquisition of Tino Investments Limited had been completed on January 1, 2008, there would be insignificant effect on the Group's turnover and profit for the year ended December 31, 2008.

For the six months ended June 30, 2009

There was no acquisition of subsidiaries, which has been accounted for using the acquisition method of accounting, for the six months ended June 30, 2009.

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43. DISPOSAL OF SUBSIDIARIES

For the year ended December 31, 2006

There was no disposal of subsidiaries for the year ended December 31, 2006.

For the year ended December 31, 2007

On December 28, 2007, the Group entered into an agreement to dispose of the entire issued shares in CR Precast to Smooth Concept, the immediate holding company of the Company, at a consideration of HK\$1. The disposal was completed on December 28, 2007. The gain on disposal of Precast Group is recognized in the consolidated statement of comprehensive income for the year ended December 31, 2007. The net assets of the Precast Group disposed of during the year ended December 31, 2007 were as follows:

	HK\$'000
Net assets disposed of:	
Fixed assets	53,581
Interest in an associate	686
Deferred tax assets	3,362
Inventories	8,146
Retention monies receivable	18,426
Amount due from an associate	506
Trade receivables	139,445
Other receivables	9,511
Cash and bank balances	9,636
Trade payables	(72,321)
Other payables	(18,299)
Amount due to immediate holding company	(141,165)
Amount due to fellow subsidiaries	(6,665)
Taxation payable	(3,204)
	1,645
Release of translation reserve	(2,036)
	(391)
Gain on disposal	391
Total consideration	—
Satisfied by:	
Cash consideration included in amount due from immediate holding company	—
Net cash outflow arising on disposal:	
Cash and bank balances disposed of	9,636

CR Precast contributed loss of HK\$2,502,000 and profit of HK\$2,113,000 to the Group's profit attributable to shareholders of the Company for the year ended December 31, 2006 and 2007, respectively, and contributed HK\$815,000 and HK\$4,445,000 cash inflow to the Group's operating cash flows for the year ended December 31, 2006 and 2007, respectively.

For the year ended December 31, 2008

There was no disposal of subsidiaries for the year ended December 31, 2008.

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For the six months ended June 30, 2009

On December 2, 2008, the Group entered into an agreement to dispose of the entire equity interest in Hongshuihe Pier Store at a consideration of RMB138,000,000 (equivalent to HK\$156,754,000). The disposal of Hongshuihe Pier Store was completed on April 6, 2009 and the gain on disposal of Hongshuihe Pier Store of HK\$22,399,000 was recognized during the six months ended June 30, 2009.

The net assets of Hongshuihe Pier Store disposed of during the six months ended June 30, 2009 were as follows:

	HK\$'000
Net assets disposed of:	
Investment properties	156,754
Cash and bank balances	7
Deferred tax liabilities	(22,406)
	<u>134,355</u>
Gain on disposal	<u>22,399</u>
Total consideration	<u><u>156,754</u></u>
Satisfied by:	
Cash consideration received and included in other payables as advanced receipts in respect of assets classified as held for sale as at December 31, 2008	<u><u>156,754</u></u>
Net cash outflow arising on disposal:	
Cash and bank balances disposal of	<u><u>7</u></u>

Hongshuihe Pier Store contributed insignificant losses to the Group's profit attributable to equity holders of the Company and contributed insignificant cash flows to the Group's operating cash flows for the year ended December 31, 2006, 2007 and 2008.

44. MAJOR NON-CASH TRANSACTION

On August 24, 2006, the Company issued 28,488,000 shares of the Company of HK\$0.10 each, credited as fully paid at par, as the settlement to Smooth Concept of HK\$56,976,000 for the redemption of the Convertible Bonds held by Smooth Concept under the Scheme of Arrangement as set out in note 40(ii).

On June 30, 2008, the Company issued 1 share of the Company of HK\$0.10 each by way of capitalization of an amount of HK\$866,000,000 owed to Smooth Concept as set out in note 35(c).

45. CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be reconciled to the related items in the consolidated statements of financial position as follows:

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	229,976	339,013	363,590	861,950
Cash and cash equivalents included in assets classified as held for sale	—	—	299	—
	<u><u>229,976</u></u>	<u><u>339,013</u></u>	<u><u>363,889</u></u>	<u><u>861,950</u></u>

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46. OPERATING LEASE COMMITMENT

The Group as lessee

At the end of each reporting period, the Group had outstanding commitments under non-cancellable operating leases which fall due as follows:

	THE GROUP			
	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
	<u>140,324</u>	<u>105,429</u>	<u>42,078</u>	<u>100,826</u>
Represented by:				
Land and buildings	140,324	100,304	35,259	90,955
Motor vehicles	—	5,125	6,819	9,871
	<u>140,324</u>	<u>105,429</u>	<u>42,078</u>	<u>100,826</u>

Operating leases are negotiated for an average term of four to eight years.

The Group as lessor

At the end of each reporting period, the Group has contracted with a tenant for the following future minimum lease payments:

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	—	—	9,215	9,215
In the second to fifth year inclusive	—	—	36,859	33,019
Over five years	—	—	768	—
	<u>—</u>	<u>—</u>	<u>46,842</u>	<u>42,234</u>

The investment property has been rented to an outside party for period up to seven years.

47. CONTINGENT LIABILITIES

	THE GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in respect of banking facilities granted to fellow subsidiaries	<u>—</u>	<u>22,721</u>	<u>7,937</u>	<u>—</u>

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48. CAPITAL COMMITMENTS

Capital commitments for purchase and construction of fixed assets outstanding at the end of each reporting period are as follows:

	THE GROUP			
	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	685,319	244,389	2,784,078	2,329,241
Authorized but not contracted for	22,796	—	3,431,983	5,091,433
	<u>708,115</u>	<u>244,389</u>	<u>6,216,061</u>	<u>7,420,674</u>

49. RELATED PARTY TRANSACTIONS

- (a) Apart from details of the balances with related parties disclosed in the consolidated statement of financial position and the entrustment loan set out in note 33, the Group entered into the following transactions with related parties during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
<u>Continuing transactions*</u>					
Sales of goods to fellow subsidiaries	16,526	15,249	33,144	2,960	21,742
Purchase of goods from fellow subsidiaries	17,899	3,671	3,370	1,464	1,722
Rent paid to fellow subsidiaries	2,637	2,109	2,630	1,264	1,224
Testing services provided to fellow subsidiaries	<u>140</u>	<u>55</u>	<u>2,083</u>	<u>1,140</u>	<u>674</u>
<u>Discontinued transactions#</u>					
Sale of goods to fellow subsidiaries	—	—	686	—	—
Purchase of goods from fellow subsidiaries	36,245	8,144	—	—	—
Interest expense paid to immediate holding company	—	25,589	14,088	14,088	—
Management fee received from a fellow subsidiary	<u>—</u>	<u>—</u>	<u>1,080</u>	<u>1,080</u>	<u>—</u>

Notes:

* These transactions will continue after the reorganization.

These transactions have discontinued during the six months ended June 30, 2009.

- (b) The key management personnel includes solely the directors of the Company and the compensation paid to them is disclosed in note 9.
- (c) In the opinion of the directors of the Company, the related party transactions were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

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50. GOVERNMENT INCENTIVES

	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
Incentive subsidies:					
(i) Environmental protection subsidies	9,706	8,113	15,983	4,417	4,334
(ii) Business encouragement subsidies	34,045	26,726	35,562	18,310	20,693
(iii) Advance and other technology subsidies	390	308	541	—	—
Amounts credited to consolidated statements of comprehensive (Note 6)	<u>44,141</u>	<u>35,147</u>	<u>52,086</u>	<u>22,727</u>	<u>25,027</u>

Incentive subsidies were granted by the relevant government of the Chinese Mainland to Pingnan Cement, Guigang Cement and Hongshuihe Cement in the following basis:

- (i) The environmental protection subsidies were granted to Pingnan Cement and Hongshuihe Cement as development funds to establish the environmental friendly manufacturing factories by making use of residual heat power, which is produced during the process of the manufacture of cement.
- (ii) The business encouragement subsidies were granted to Pingnan Cement, Guigang Cement and Hongshuihe Cement to encourage the establishment of cement manufacturing business in the Guangxi Province. The incentive subsidies granted to Pingnan Cement and Guigang Cement were calculated according to (i) 50% of the valued-added tax previously paid to the local tax bureau and (ii) RMB1.2 per ton of the limestone used for five years since the commencement of the operations. Incentive subsidies granted to Hongshuihe Cement were calculated according to the valued-added tax paid by Hongshuihe Cement for the sales of certain types of cement products.
- (iii) The advance technology and other incentives were granted to Pingnan Cement and Hongshuihe Cement by the relevant government of the Chinese Mainland mainly for technological improvements.

There were no other specific conditions attached to the incentives and, therefore, the Group recognized the incentives upon receipt.

B. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The Company's ultimate holding company are China Resources National Corporation, a company established in the Chinese Mainland throughout the Track Record Period.

From January 1, 2006 to August 2, 2006, CRH was the immediate holding company of the Company. Since August 3, 2006, Smooth Concept becomes the immediate holding company of the Company.

C. DIRECTORS' REMUNERATION

Save as disclosed in the Financial Information, no other remuneration has been paid or payable by the Group to the directors of the Company in respect of the Track Record Period.

Under the arrangement currently in force, the aggregate amount of the directors' fees and other emoluments for the year ending December 31, 2009 is estimated to be approximately HK\$8,449,000.

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ACCOUNTANTS' REPORT OF THE COMPANY

D. SUBSEQUENT EVENTS

Subsequent to June 30, 2009, the Group had the following subsequent events.

On August 31, 2009, the Company increased the authorized share capital by creating an additional 9,000,000,000 ordinary shares of HK\$0.10 each and issued 4,000,000,000 ordinary shares of HK\$0.10 each to Smooth Concept for a consideration of HK\$1,000,000,000.

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies of the Group subsequent to June 30, 2009.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX II

ACCOUNTANTS’ REPORT OF HAINAN CEMENT



德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

[Date]

The Directors
China Resources Cement Holdings Limited
[●]

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to 國投海南水泥有限責任公司 (SDIC Hainan Cement Company Limited) (“Hainan Cement”) and its subsidiary (hereinafter collectively referred to as the “Hainan Cement Group”) for each of the three years ended December 31, 2008 and six months ended June 30, 2009 (the “Relevant Periods”). On December 18, 2008, a wholly-owned subsidiary of the Company won the bid at public auction for the acquisition of 29.3% equity interest in Hainan Cement. In addition, on June 30, 2009, the Group entered into an agreement with SDIC Assets Management Co. (國投資產管理有限公司) (“Guo Tou”) in which Guo Tou agreed to transfer 34.14% equity interest in Hainan Cement to a subsidiary of the Company. Both acquisitions are still subject to government approval as at June 30, 2009.

Hainan Cement was established in the People’s Republic of China (the “PRC” or “Chinese Mainland”) on July 31, 1997 and is principally engaged in manufacture and sale of cement.

Throughout the Relevant Periods and as at the date of this report, Hainan Cement has interests in the following entities:

Subsidiary	Place of establishment	Date of establishment	Registered capital	Attributable equity interest of the “Hainan Cement Group”				At date of report	Principal activities
				As at December 31,			As at June 30,		
				2006	2007	2008	2009		
昌江海島水泥綜合開發有限公司 (Changjiang Haidao Cement Development Company Limited) (“Changjiang Haidao”) ⁽¹⁾	Chinese Mainland	November 19, 1993	RMB1,000,000	100%	100%	100%	100%	100%	Provision of catering and other support services to Hainan Cement
Associate									
海南海島混凝土有限責任公司 (Hainan Haidao Concrete Company Limited) (“Hainan Concrete”) ⁽¹⁾	Chinese Mainland	August 25, 2005	RMB20,000,000	30%	30%	30%	30%	30%	Manufacture and sale of concrete

⁽¹⁾ Interests in these companies are directly held by Hainan Cement.

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ACCOUNTANTS' REPORT OF HAINAN CEMENT

Both the above subsidiary and associate were established in the Chinese Mainland in the form of limited company and adopt December 31 as the financial year end date.

The statutory financial statements of the subsidiary and the associate for the three years ended December 31, 2008 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC jurisdiction and were audited by the following certified public accountants registered in the PRC, except for the description in Note a:

Name	Financial period	Auditors
Hainan Cement	For each of the three years ended December 31, 2008	海南海正會計師事務所
Changjiang Haidao	For each of the two years ended December 31, 2008 (Note a)	海南海正會計師事務所
Hainan Concrete	For each of the three years ended December 31, 2008	海南海正會計師事務所

Note:

- (a) The financial statements of Changjiang Haidao for the year ended December 31, 2006 has not been audited.

For the purpose of the preparation of this report, the directors of Hainan Cement have prepared consolidated financial statements of Hainan Cement in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements for each of the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to adjust the Underlying Financial Statements in the preparation of this report for inclusion in this document.

The Underlying Financial Statements are the responsibility of the directors of Hainan Cement who approve their issue. The directors of the Company are responsible for the contents of this document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Hainan Cement Group and Hainan Cement as at December 31, 2006, December 31, 2007, December 31, 2008 and June 30, 2009 and of the consolidated results and consolidated cash flows of Hainan Cement Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Hainan Cement Group for the six months ended June 30, 2008 together with the notes thereon (the "June 30, 2008 Financial Information") have been extracted from the Hainan Cement Group's unaudited consolidated financial information for the same period which was prepared by the directors of the Hainan Cement solely for the purpose of this report. We have reviewed the June 30, 2008 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our

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ACCOUNTANTS' REPORT OF HAINAN CEMENT

review of the June 30, 2008 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 30, 2008 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 30, 2008 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with Hong Kong Financial Reporting Standards.

A. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

	Notes	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
Turnover	5	396,233	532,337	801,657	312,463	352,107
Cost of sales		(327,961)	(370,510)	(562,103)	(229,392)	(267,909)
Gross profit		68,272	161,827	239,554	83,071	84,198
Other income	6	726	6,271	12,448	3,657	3,685
Selling and distribution expenses		(31,883)	(33,276)	(38,039)	(15,788)	(23,712)
General and administrative expenses ...		(32,610)	(46,099)	(50,469)	(18,956)	(23,372)
Finance costs	7	(19,079)	(11,046)	(22,855)	(10,676)	(10,925)
Share of result of an associate		(167)	(822)	340	(420)	1,587
(Loss) profit before taxation	8	(14,741)	76,855	140,979	40,888	31,461
Taxation	10	—	(8,327)	(26,332)	(7,911)	(6,046)
(Loss) profit for the year/period		(14,741)	68,528	114,647	32,977	25,415
Other comprehensive income (expenses)						
Exchange differences arising on translation to presentation currency		36,828	38,088	39,821	40,665	(838)
Total comprehensive income for the year/period		22,087	106,616	154,468	73,642	24,577
(Loss) profit for the year/period attributable to equity holders of Hainan Cement		(14,741)	68,528	114,647	32,977	25,415
Total comprehensive income for the year/period attributable to equity holders of Hainan Cement		22,087	106,616	154,468	73,642	24,577

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ACCOUNTANTS' REPORT OF HAINAN CEMENT

Consolidated Statements of Financial Position

	Notes	As at December 31,			As at June 30,
		2006	2007	2008	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets	13	743,125	785,029	989,041	1,315,504
Prepaid lease payments	14	15,732	16,401	24,280	23,950
Interest in an associate	16	5,807	5,369	6,056	7,636
Deposits on acquisition of mining rights		—	11,998	19,144	19,123
Deposits on acquisition of fixed assets		883	1,668	2,935	2,090
Mining rights	17	25,525	25,180	24,474	23,292
Available-for-sale investment	18	996	—	—	—
		<u>792,068</u>	<u>845,645</u>	<u>1,065,930</u>	<u>1,391,595</u>
Current assets					
Inventories	19	58,534	76,230	108,265	99,528
Prepaid lease payments	14	427	458	606	605
Amounts due from equity holders	20	6,729	7,243	7,679	—
Amount due from an associate	21	4,350	6,258	—	—
Trade receivables	22	51,177	21,095	14,730	21,304
Other receivables	23	31,034	17,518	25,999	26,521
Pledged bank deposits	24	—	283	26,944	9,895
Cash and bank balances	25	28,508	66,786	457,546	214,308
		<u>180,759</u>	<u>195,871</u>	<u>641,769</u>	<u>372,161</u>
Current liabilities					
Trade payables	26	53,314	32,311	78,000	53,390
Other payables	27	37,224	48,838	60,612	147,219
Amount due to an equity holder	28	226,321	223,919	230,192	226,045
Taxation payable		—	8,659	35,898	41,905
Bank loans — amount due within one year	29	98,924	76,645	63,610	63,540
		<u>415,783</u>	<u>390,372</u>	<u>468,312</u>	<u>532,099</u>
Net current (liabilities) assets		<u>(235,024)</u>	<u>(194,501)</u>	<u>173,457</u>	<u>(159,938)</u>
Total assets less current liabilities		557,044	651,144	1,239,387	1,231,657
Non-current liabilities					
Bank loans — amount due after one year	29	63,770	51,254	485,029	475,414
		<u>493,274</u>	<u>599,890</u>	<u>754,358</u>	<u>756,243</u>
Capital and reserves					
Paid in capital	30	500,441	500,441	500,441	500,441
Reserves		(7,167)	99,449	253,917	255,802
Total equity		<u>493,274</u>	<u>599,890</u>	<u>754,358</u>	<u>756,243</u>

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ACCOUNTANTS' REPORT OF HAINAN CEMENT

Statements of Financial Position

	Notes	As at December 31,			As at June 30,
		2006	2007	2008	2009
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets	13	742,752	784,705	988,777	1,315,275
Prepaid lease payments	14	15,732	16,401	24,280	23,950
Investment in a subsidiary	15	996	1,068	1,136	1,135
Investment in an associate	16	5,978	6,407	6,815	6,808
Deposits on acquisition of mining rights		—	11,998	19,144	19,123
Deposits on acquisition of fixed assets		883	1,668	2,935	2,090
Mining rights	17	25,525	25,180	24,474	23,292
		<u>791,866</u>	<u>847,427</u>	<u>1,067,561</u>	<u>1,391,673</u>
Current assets					
Inventories	19	58,514	76,205	108,120	99,383
Prepaid lease payments	14	427	458	606	605
Amount due from a subsidiary	15	—	39	—	126
Amounts due from equity holders	20	6,729	7,243	7,679	—
Amount due from an associate	21	4,350	6,258	—	—
Trade receivables	22	51,173	21,091	14,730	21,304
Other receivables	23	30,920	17,450	25,869	25,683
Pledged bank deposits	24	—	283	26,944	9,895
Cash and bank balances	25	27,501	64,505	456,543	213,922
		<u>179,614</u>	<u>193,532</u>	<u>640,491</u>	<u>370,918</u>
Current liabilities					
Trade payables	26	53,311	32,304	77,996	53,338
Other payables	27	36,740	48,175	60,278	146,925
Amount due to a subsidiary	15	208	—	180	—
Amount due to an equity holder	28	226,321	223,919	230,192	226,045
Taxation payable		—	8,659	35,898	41,905
Bank loans — amount due within one year	29	98,924	76,645	63,610	63,540
		<u>415,504</u>	<u>389,702</u>	<u>468,154</u>	<u>531,753</u>
Net current (liabilities) assets		<u>(235,890)</u>	<u>(196,170)</u>	<u>172,337</u>	<u>(160,835)</u>
Total assets less current liabilities		<u>555,976</u>	<u>651,257</u>	<u>1,239,898</u>	<u>1,230,838</u>
Non-current liabilities					
Bank loans — amount due after one year	29	63,770	51,254	485,029	475,414
		<u>492,206</u>	<u>600,003</u>	<u>754,869</u>	<u>755,424</u>
Capital and reserves					
Paid in capital	30	500,441	500,441	500,441	500,441
Reserves	31	(8,235)	99,562	254,428	254,983
Total equity		<u>492,206</u>	<u>600,003</u>	<u>754,869</u>	<u>755,424</u>

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ACCOUNTANTS’ REPORT OF HAINAN CEMENT

Consolidated Statements of Changes in Equity

	Equity attributable to equity holders of Hainan Cement						
	Paid in capital	Capital surplus	Capital reserve	Statutory reserve	Translation reserve	Accumulated losses	Total
	HK\$’000	HK\$’000 (Note a)	HK\$’000 (Note b)	HK\$’000	HK\$’000	HK\$’000	HK\$’000
At January 1, 2006	500,441	510,767	103,591	3,573	(26,739)	(620,446)	471,187
Exchange differences arising on translation to presentation currency	—	—	—	—	36,828	—	36,828
Loss for the year	—	—	—	—	—	(14,741)	(14,741)
Total comprehensive income and expense for the year	—	—	—	—	36,828	(14,741)	22,087
Transfer of reserve (Note c)	—	—	—	556	—	(556)	—
At December 31, 2006	500,441	510,767	103,591	4,129	10,089	(635,743)	493,274
Exchange differences arising on translation to presentation currency	—	—	—	—	38,088	—	38,088
Profit for the year	—	—	—	—	—	68,528	68,528
Total comprehensive income for the year	—	—	—	—	38,088	68,528	106,616
Transfer of reserve (Note c)	—	—	—	13,119	—	(13,119)	—
At December 31, 2007	500,441	510,767	103,591	17,248	48,177	(580,334)	599,890
Exchange differences arising on translation to presentation currency	—	—	—	—	39,821	—	39,821
Profit for the year	—	—	—	—	—	114,647	114,647
Total comprehensive income for the year	—	—	—	—	39,821	114,647	154,468
Transfer of reserve (Note c)	—	—	—	18,469	—	(18,469)	—
At December 31, 2008	500,441	510,767	103,591	35,717	87,998	(484,156)	754,358
Exchange differences arising on translation to presentation currency	—	—	—	—	(838)	—	(838)
Profit for the period	—	—	—	—	—	25,415	25,415
Total comprehensive income and expense for the period	—	—	—	—	(838)	25,415	24,577
Transfer of reserve (Note c)	—	—	—	6,431	—	(6,431)	—
Dividends declared (Note c)	—	—	—	—	—	(22,692)	(22,692)
At June 30, 2009	500,441	510,767	103,591	42,148	87,160	(487,864)	756,243
Unaudited							
At January 1, 2008	500,441	510,767	103,591	17,248	48,177	(580,334)	599,890
Exchange differences arising on translation to presentation currency	—	—	—	—	40,665	—	40,665
Profit for the period	—	—	—	—	—	32,977	32,977
Total comprehensive income for the period	—	—	—	—	40,665	32,977	73,642
Transfer of reserve (Note c)	—	—	—	6,119	—	(6,119)	—
At June 30, 2008	500,441	510,767	103,591	23,367	88,842	(553,476)	673,532

Notes:

- According to the “Debt to Equity Swap” agreement signed between Hainan Cement and 中國長城資產管理公司, 中國建設銀行海南分行, 中國東方資產管理公司 and 海南省國際信託投資公司 (collectively referred to as the “New Equity Holders”) during the year ended December 31, 2005, the New Equity Holders agreed to capitalize the loans to Hainan Cement amounted to RMB864,665,000 (equivalent to HK\$830,943,000). The amount of contributed surplus represented the difference between the amount of capitalized loan of RMB864,665,000 (equivalent to HK\$830,943,000) and the amount of registered paid in capital of RMB333,170,000 (equivalent to HK\$320,176,000).
- The amount represented the additional contribution in excess of registered paid in capital amounting to RMB108,000,000 (equivalent to HK\$103,591,000) injected by two equity holders pursuant to the “Debt to Equity Swap” agreement during the year ended December 31, 2005.
- Transfer of reserve and dividends declared are determined by reference to the statutory financial statements of Hainan Cement prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises.

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ACCOUNTANTS' REPORT OF HAINAN CEMENT

Consolidated Statements of Cash Flows

	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
Cash flows from operating activities					
(Loss) profit before taxation	(14,741)	76,855	140,979	40,888	31,461
Adjustments for:					
Depreciation of fixed assets	48,487	52,940	58,588	28,690	28,199
Amortization of mining rights	1,986	2,091	2,282	1,124	1,155
Release of prepaid lease payments	418	440	598	237	303
Impairment loss on other receivables	283	420	229	—	—
Impairment loss on amount due from an associate . . .	—	—	1,530	—	—
Write-down of inventories	2,173	—	2,524	—	—
Write-off of trade receivables	—	2,676	—	—	—
Interest income	(326)	(327)	(587)	(197)	(884)
Interest expenses	19,079	11,046	22,855	10,676	10,925
Waiver of outstanding payables to suppliers	—	(445)	—	—	—
Share of result of an associate	167	822	(340)	420	(1,587)
Allowance for doubtful debts	129	9,801	1,611	—	—
(Gain) loss on disposal of fixed assets	(152)	(25)	18	—	—
Operating cash flows before movements in working capital	57,503	156,294	230,287	81,838	69,572
Decrease (increase) in inventories	10,672	(13,502)	(30,059)	(15,587)	8,456
(Increase) decrease in trade receivables	(25,885)	22,565	6,202	(6,423)	(6,613)
(Increase) decrease in other receivables	(18,768)	15,923	(7,691)	(7,055)	(590)
(Increase) decrease in amount due from an associate	(4,099)	(1,596)	5,127	(3,274)	—
Increase (decrease) in trade payables	20,287	(23,428)	43,048	(1,220)	(24,406)
(Decrease) increase in other payables	(7,953)	14,982	(3,920)	(2,125)	(25,724)
Cash generated from operations	31,757	171,238	242,994	46,154	20,695
Interest paid	(8,925)	(28,952)	(33,217)	(3,515)	(28,629)
Net cash generated from (used in) operating activities	22,832	142,286	209,777	42,639	(7,934)

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ACCOUNTANTS' REPORT OF HAINAN CEMENT

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000 (unaudited)	HKS'000
Cash flows from investing activities					
Proceed from disposal of available-for-sale investment	—	1,067	—	—	—
Interest received	326	327	587	197	884
Purchase and deposits paid for acquisition of fixed assets	(52,537)	(34,226)	(199,577)	(43,965)	(228,633)
Increase in prepaid lease payments	(1,911)	—	(7,557)	—	—
Deposits paid for acquisition of mining rights	—	(11,998)	(6,381)	—	—
(Increase) decrease in pledged bank deposits	—	(283)	(26,643)	(25,900)	16,979
Proceeds from disposal of fixed assets	1,536	303	—	—	—
Advances to equity holders	—	—	26	235	—
Net cash used in investing activities	(52,586)	(44,810)	(239,545)	(69,433)	(210,770)
Cash flows from financing activities					
Bank loan raised	—	78,044	494,117	—	—
Repayments of bank loans	—	(139,566)	(80,458)	(10,928)	(9,077)
Dividends paid	—	—	—	—	(15,030)
Net cash (used in) generated from financing activities	—	(61,522)	413,659	(10,928)	(24,107)
Net (decrease) increase in cash and cash equivalents for the year/period	(29,754)	35,954	383,891	(37,722)	(242,811)
Cash and cash equivalents at beginning of the year/period	57,325	28,508	66,786	66,786	457,546
Effect of foreign exchange rate change	937	2,324	6,869	7,024	(427)
Cash and cash equivalents at end of the year/period, representing cash and bank balances	28,508	66,786	457,546	36,088	214,308

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ACCOUNTANTS' REPORT OF HAINAN CEMENT

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Hainan Cement was established on July 31, 1997 as a limited liability company in the PRC.

The Financial Information incorporate the financial information of Hainan Cement and its subsidiary.

The functional currency of Hainan Cement Group is Renminbi while the Financial Information is presented in Hong Kong dollars ("HK\$") which is consistent with the presentation currency of the financial information of the Company and its subsidiaries incorporated in this document.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

The HKICPA issued a number of new Hong Kong Accounting Standards ("HKAS"s) and HKFRS, Amendments and Interpretations ("INT"s) (hereinafter collectively referred to as "new HKFRS") which are effective for Hainan Cement Group's financial period beginning on January 1, 2009. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, Hainan Cement Group has adopted all these new HKFRS consistently throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following standards, amendments and interpretations that are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ⁽¹⁾
HKFRSs (Amendments)	Improvements to HKFRSs in 2009 ⁽²⁾
HKAS 27 (Revised)	Consolidated the separate financial statements ⁽¹⁾
HKAS 39 (Amendments)	Eligible hedged items ⁽¹⁾
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions ⁽³⁾
HKFRS 3 (Revised)	Business combinations ⁽¹⁾
HK(IFRIC) — INT 17	Distributions of non-cash assets to owners ⁽¹⁾
HK(IFRIC) — INT 18	Transfers of assets from customers ⁽⁴⁾

⁽¹⁾ Effective for annual periods beginning on or after July 1, 2009.

⁽²⁾ Effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate.

⁽³⁾ Effective for annual periods beginning on or after January 1, 2010.

⁽⁴⁾ Effective for transfers on or after July 1, 2009.

The directors of Hainan Cement anticipate the application of the revised standards, amendments and interpretations will have no material impact on the results and the financial position of Hainan Cement Group.

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3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conforms with HKFRS issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

Where necessary, adjustments are made to the financial information of its subsidiary to bring its accounting policies in line with those used by Hainan Cement Group.

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

Investment in a subsidiary

Investment in a subsidiary is stated at cost less any identified impairment loss in the statement of financial position of Hainan Cement.

Fixed assets

Fixed assets other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of fixed assets, other than construction in progress, over their estimated useful lives after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives are as follows:

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

Construction in progress includes fixed assets in the course of construction for production or administrative purposes or for the purposes not yet determined and are carried at cost less accumulated impairment losses, if any. Cost includes all construction expenditure, professional fees, borrowing cost capitalized and other relevant expenses directly attributable to such projects. Construction in progress is

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classified to the appropriate category of fixed assets when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of fixed asset is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceed and the carrying amount of the item) is included in the consolidated statements of comprehensive income in the year/period in which the item is derecognized.

Mining rights

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

Gain or loss arising from derecognition of mining right is measured at the difference between the net disposal proceed and its carrying amount and is recognized in the consolidated statement of comprehensive income when it is derecognized.

Interest in an associate

An associate is an entity over which Hainan Cement Group has significant influence and that is neither a subsidiary nor an interest in a jointly controlled entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is neither control nor joint control over those policies.

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

Any excess of the cost of acquisition over Hainan Cement Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of Hainan Cement Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognized immediately in the consolidated statements of comprehensive income.

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

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Investment in an associate is stated at cost less any identified impairment loss in the statement of financial position of Hainan Cement.

Prepaid lease payments

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as finance lease and accounted for as fixed assets. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

The up-front payments to acquire leasehold interest in land are accounted for as operating leases and are stated at cost and released over the lease term on a straight-line basis.

Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average cost method.

Revenue recognition

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

Sale of goods is recognized when goods are delivered and title has passed.

Service income is recognized when services are rendered.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary

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investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the year/period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years/period, and it further excludes the items of income and expense that are never taxable and deductible. The liability of Hainan Cement Group for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of each reporting period.

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investment in a subsidiary and an associate, except where Hainan Cement Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the year/period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statements of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are not recognized until there is reasonable assurance that Hainan Cement Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognized as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to Hainan Cement Group with no future related costs are recognized in profit or loss in the year/period in which they become receivable.

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Foreign currencies

In preparing the financial information of each individual entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the Financial Information in HK\$, the assets and liabilities of Hainan Cement Group which are stated at functional currency are translated into HK\$ at the exchange rate prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the year/period in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in the profit or loss in the year/period in which the foreign operation is disposed of.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to Hainan Cement Group. All other leases are classified as operating leases.

Hainan Cement Group as lessee

Rental expense arising from operating leases is recognized in the consolidated statements of comprehensive income on a straight-line basis over the periods of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Hainan Cement Group as lessor

Rental income from operating leases is recognized in the consolidated statements of comprehensive income account on a straight-line basis over the term of the relevant lease.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position and the statements of financial position of Hainan Cement when an entity of Hainan Cement Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial

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assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Hainan Cement Group's financial assets comprise of loans and receivables and available-for-sale financial assets. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

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

Income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including amounts due from equity holders/an associate, trade and other receivables, pledged bank deposits and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition. Impairment loss for available-for-sale equity investments measured at cost less any identified impairment losses are not reversed in subsequent periods.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occur after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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For all other financial assets, objective evidence of impairment could include:

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

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

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

Financial liabilities and equity

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

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

Effective interest method

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

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Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to a subsidiary/an equity holder and bank loans are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Hainan Cement Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognized directly in other comprehensive income is reclassified to profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration received or receivable is recognized in profit or loss.

Employee benefits

Payments to government-managed retirement benefit schemes is charged as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimated impairment of trade receivables

Where there is objective evidence of impairment loss, Hainan Cement Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured on 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 and 2008 and June 30, 2009, the carrying amount of trade receivables of Hainan Cement Group are HK\$51,177,000 (net of allowance for doubtful debts of HK\$1,408,000), HK\$21,095,000 (net of allowance for doubtful debts of HK\$11,700,000), HK\$14,730,000 (net of allowance for doubtful debts of HK\$14,079,000) and HK\$21,304,000 (net of allowance for doubtful debts of HK\$14,063,000) respectively (see note 22).

5. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amount received and receivable for goods sold and service rendered to outside customers.

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An analysis of Hainan Cement Group's turnover for the year/period is as follows:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of goods	396,073	531,594	801,507	312,441	352,068
Services income	160	743	150	22	39
	<u>396,233</u>	<u>532,337</u>	<u>801,657</u>	<u>312,463</u>	<u>352,107</u>

Segment information has been identified on the basis of internal management accounts that are regularly reviewed by the General Manager, the chief operating decision maker, in order to allocate resources to the reportable segments and to assess their performance.

Hainan Cement Group's reportable segments under HKFRS 8 are as follows:

Cement — manufacture and sale of cement and related products carried out by Hainan Cement

Catering and other support services — provision of catering and other support services by Changjiang Haidao to Hainan Cement.

Inter-segment sales are carried out on terms equivalent to those charged to outside customers.

During the Relevant Periods, one of the customers of Hainan Cement Group contributed turnover of HK\$380,662,000 and HK\$116,818,000 for the year ended December 31, 2008 and the six months ended June 30, 2009 respectively which were more than 10% of the Hainan Cement Group's turnover for that year/period under the Cement reportable segment. Save as disclosed above, none of the customers from Hainan Cement Group contributed more than 10% of the total turnover for the two years ended December 31, 2006 and 2007 and six months ended June 30, 2008. In the opinion of the directors of Hainan Cement, Hainan Cement Group did not rely on any major customer during the Relevant Periods.

Segment results represent the post-tax profits for the year/period of the group entity engaged in the respective segment operation without allocation of share of result of an associate.

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The information of segment results are as follows:

For the year ended December 31, 2006

	Cement	Catering and other support services	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	396,073	160	—	396,233
Inter-segment sales	60	7,524	(7,584)	—
	<u>396,133</u>	<u>7,684</u>	<u>(7,584)</u>	<u>396,233</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	(13,657)	(917)	—	(14,574)
Share of result of an associate				(167)
Loss for the year				<u>(14,741)</u>

For the year ended December 31, 2007

	Cement	Catering and other support services	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	531,594	743	—	532,337
Inter-segment sales	130	8,329	(8,459)	—
	<u>531,724</u>	<u>9,072</u>	<u>(8,459)</u>	<u>532,337</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS				
Segment results	69,429	(79)	—	69,350
Share of result of an associate				(822)
Profit for the year				<u>68,528</u>

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For the year ended December 31, 2008

	Cement	Catering and other support services	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	801,507	150	—	801,657
Inter-segment sales	172	8,562	(8,734)	—
	<u>801,679</u>	<u>8,712</u>	<u>(8,734)</u>	<u>801,657</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS

Segment results	115,050	(743)	—	114,307
Share of result of an associate				340
Profit for the year				<u>114,647</u>

For the six months ended June 30, 2009

	Cement	Catering and other support services	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	352,068	39	—	352,107
Inter-segment sales	194	3,848	(4,042)	—
	<u>352,262</u>	<u>3,887</u>	<u>(4,042)</u>	<u>352,107</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS

Segment results	23,950	(122)	—	23,828
Share of result of an associate				1,587
Profit for the period				<u>25,415</u>

For the six months ended June 30, 2008 (unaudited)

	Cement	Catering and other support services	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	312,441	22	—	312,463
Inter-segment sales	140	2,324	(2,464)	—
	<u>312,581</u>	<u>2,346</u>	<u>(2,464)</u>	<u>312,463</u>

Inter-segment sales are charged at prevailing market prices.

RESULTS

Segment results	34,288	(891)	—	33,397
Share of result of an associate				(420)
Profit for the period				<u>32,977</u>

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Information of segment assets and segment liabilities are as follows:

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
Assets				
Segment assets				
— Cement	970,333	1,038,815	1,706,157	1,762,156
— Catering and other support services	2,494	2,701	1,542	1,600
Consolidated total assets	<u>972,827</u>	<u>1,041,516</u>	<u>1,707,699</u>	<u>1,763,756</u>
Liabilities				
Segment liabilities				
— Cement	479,066	440,956	953,004	1,007,168
— Catering and other support services	487	670	337	345
Consolidated total liabilities	<u>479,553</u>	<u>441,626</u>	<u>953,341</u>	<u>1,007,513</u>

Other information

For the year ended December 31, 2006

	Cement	Catering and other support services	Total
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	61,775	—	61,775
Additions to prepaid lease payments	1,911	—	1,911
Allowance for doubtful debts	129	—	129
Amortization of mining rights	1,986	—	1,986
Depreciation of fixed assets	48,371	116	48,487
Gain on disposal of fixed assets	152	—	152
Increase in deposits on acquisition of fixed assets	883	—	883
Interest income	321	5	326
Interest expenses	19,079	—	19,079
Impairment loss on other receivables	—	283	283
Release of prepaid lease payments	418	—	418
Write-down of inventories	<u>2,173</u>	<u>—</u>	<u>2,173</u>

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For the year ended December 31, 2007

	Cement	Catering and other support services	Total
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	43,961	13	43,974
Allowance for doubtful debts	9,801	—	9,801
Amortization of mining rights	2,091	—	2,091
Depreciation of fixed assets	52,852	88	52,940
Deposit on acquisition of mining rights	11,998	—	11,998
Gain on disposal of fixed assets	25	—	25
Increase in deposits on acquisition of fixed assets	722	—	722
Interest income	319	8	327
Interest expenses	11,046	—	11,046
Impairment loss on other receivables	420	—	420
Release of prepaid lease payments	440	—	440
Taxation	8,327	—	8,327
Write-off of trade receivables	2,676	—	2,676

For the year ended December 31, 2008

	Cement	Catering and other support services	Total
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	213,340	—	213,340
Additions to prepaid lease payments	7,557	—	7,557
Allowance for doubtful debts	1,611	—	1,611
Amortization of mining rights	2,282	—	2,282
Depreciation of fixed assets	58,510	78	58,588
Deposit on acquisition of mining rights	6,381	—	6,381
Loss on disposal of fixed assets	18	—	18
Increase in deposits on acquisition of fixed assets	1,161	—	1,161
Interest income	578	9	587
Interest expenses	22,855	—	22,855
Impairment loss on other receivables	229	—	229
Write-down of inventories	2,524	—	2,524
Release of prepaid lease payments	598	—	598
Taxation	26,332	—	26,332

For the six months ended June 30, 2009

	Cement	Catering and other support services	Total
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	355,763	3	355,766
Amortization of mining rights	1,155	—	1,155
Decrease in deposits on acquisition of fixed assets	837	—	837
Depreciation of fixed assets	28,162	37	28,199
Interest income	883	1	884
Interest expenses	10,925	—	10,925
Release of prepaid lease payments	303	—	303
Taxation	6,046	—	6,046

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For the six months ended June 30, 2008 (unaudited)

	Cement	Catering and other support services	Total
	HK\$'000	HK\$'000	HK\$'000
Additions to fixed assets	47,894	—	47,894
Amortization of mining rights	1,124	—	1,124
Depreciation of fixed assets	28,649	41	28,690
Interest income	191	6	197
Interest expenses	10,676	—	10,676
Increase in deposits on acquisition of fixed assets	122	—	122
Release of prepaid lease payments	237	—	237
Taxation	7,911	—	7,911

All turnover from external customers during the Relevant Periods are derived from customers in Chinese Mainland.

All non-current assets are located in Chinese Mainland.

6. OTHER INCOME

	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
Interest income	326	327	587	197	884
Sales of scrap materials	307	617	2,355	—	330
Exchange gain	—	479	—	—	—
Government incentives (Note 38)	—	2,978	9,144	3,003	1,884
Rental income	62	111	97	43	55
Waiver of outstanding payables to suppliers	—	445	—	—	—
Others	31	1,314	265	414	532
Total	726	6,271	12,448	3,657	3,685

7. FINANCE COSTS

	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
Interests on					
— bank loans wholly repayable within five years	8,925	9,163	15,444	3,100	18,591
— write-back of interest payable to banks (Note) . .	—	(11,018)	(2,877)	—	—
— amount due to an equity holder	10,154	12,901	12,748	7,576	6,146
	19,079	11,046	25,315	10,676	24,737
Less: Amount capitalized to fixed assets	—	—	(2,460)	—	(13,812)
Total	19,079	11,046	22,855	10,676	10,925

Borrowing costs of HK\$2,460,000 and HK\$13,812,000 capitalized to fixed assets during the year ended December 31, 2008 and the six months ended June 30, 2009 respectively are related to specific borrowings attributable to the construction of fixed assets.

Note: During the year ended December 31, 2007, 2008 write-back of interests to banks was made as a result of a waiver of interests granted by two banks during those years.

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8. (LOSS) PROFIT BEFORE TAXATION

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss (profit) before taxation has been arrived at after charging (crediting):					
Directors' emoluments (note 9)	—	—	—	—	—
Pension costs	2,150	2,024	2,747	1,460	1,214
Other staff costs	14,012	16,654	30,068	15,560	18,224
Total staff costs	16,162	18,678	32,815	17,020	19,438
Allowance for doubtful debts (included in general and administrative expenses)	129	9,801	1,611	—	—
Amortization of mining rights (included in general and administrative expenses)	1,986	2,091	2,282	1,124	1,155
Auditors' remuneration	29	51	73	72	28
Cost of inventories recognized as expense	318,521	361,643	551,166	184,637	264,235
Depreciation of fixed assets	48,487	52,940	58,588	28,690	28,199
Release of prepaid lease payments (included in general and administrative expenses)	418	440	598	237	303
(Gain) loss on disposal of fixed assets	(152)	(25)	18	—	—
Impairment loss on other receivables	283	420	229	—	—
Impairment loss on amount due from an associate	—	—	1,530	—	—
Write-down of inventories (included in cost of sales)	2,173	—	2,524	—	—
Minimum lease payments in respect of rented premises	—	—	210	—	170

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9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

No directors' emoluments have been paid or payable for the three years ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2008 and 2009.

(b) Employees' emoluments

No directors of Hainan Cement were the five highest paid employees of Hainan Cement Group during the Relevant Periods. The details of the emoluments paid to the five highest paid employees for the Relevant Periods were as follows:

	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
Salaries and allowances	627	660	491	208	286
Pension costs	8	11	24	5	11
	<u>635</u>	<u>671</u>	<u>515</u>	<u>213</u>	<u>297</u>

Their emoluments were within the following bands:

	Number of employees			Six months ended June 30,	
	Year ended December 31,			2008	2009
	2006	2007	2008		
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no emoluments has been paid by Hainan Cement Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining Hainan Cement Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

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10. TAXATION

	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
The charge comprise:					
Current taxation					
Chinese Mainland Enterprise Income Tax					
("EIT")	—	8,327	26,332	7,911	6,046

Chinese Mainland Enterprise Income Tax represents the income tax in the Chinese Mainland which is calculated at the prevailing tax rate on the taxable income of the group entities in the Chinese Mainland.

On March 16, 2007, The Law of the Chinese Mainland on Enterprise Income Tax (the "New Tax Law") was promulgated by Order No. 63 of the President of the Chinese Mainland. On December 6, 2007, the State Council of the Chinese Mainland issued Implementation Regulations of the New Tax Law, which became effective on January 1, 2008 and superseded the Chinese Mainland Foreign Invested Enterprise and Foreign Enterprise Income Tax Law and the Provisional Regulations on Enterprise Income Tax of the Chinese Mainland. The New Tax Law consolidates the previous two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both types of enterprises. Under the New Tax Law, the entities that previously enjoyed a preferential tax rate prior to January 1, 2008 will gradually transit to the new tax rate over five years from January 1, 2008.

Taxation arising in the Chinese Mainland is calculated at the following income tax rates.

	Year ended December 31,			Six months ended June 30,		
	2006	2007	2008	2008	2009	Notes
Hainan Cement	—	15%	18%	18%	20%	(a)
Changjiang Haidao	—	—	—	—	—	(b)

Notes:

- (a) Hainan Cement is a limited company registered in Hainan Island Province, which is subject to EIT at a rate of 15% for years 2006 and 2007, 18% for year 2008 and 20% for six months ended June 30, 2009. It was not subject to tax in 2006 as it incurred a tax loss during that year.
- (b) Changjiang Haidao is a limited company registered in Hainan Island Province, which is subject to EIT at a rate of 15% for years 2006 and 2007, 18% for year 2008 and 20% for six months ended June 30, 2009. Changjiang Haidao was not subject to tax in years 2006, 2007 and 2008 and six months ended June 30, 2008 and June 30, 2009 as they incurred tax losses during the years/period.

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The charge for the year/period can be reconciled to the consolidated (loss) profit before taxation as follows:

	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
(Loss) profit before taxation	(14,741)	76,855	140,979	40,888	31,461
Applicable income tax rate	15%	15%	18%	18%	20%
Tax (credit) charge at the applicable income tax rate	(2,211)	11,528	25,376	7,360	6,292
Tax effect of share of result of an associate	25	123	(61)	76	(317)
Tax effect of expenses that are not deductible in determining taxable profit	1,418	3,428	865	193	47
Tax effect of tax losses not recognized	768	13	152	282	24
Tax effect of utilization of tax losses previously not recognized	—	(6,765)	—	—	—
Taxation expense for the year/period	—	8,327	26,332	7,911	6,046

Hainan Cement Group had unused tax losses of approximately HK\$92,015,000, HK\$1,004,000, HK\$1,848,000, HK\$2,571,000 and HK\$1,968,000 as at December 31, 2006, 2007 and 2008 and June 30, 2008 and 2009 respectively, available for offset against future profits. The unused tax losses of approximately HK\$45,100,000 of Hainan Cement had been fully utilized during the year ended December 31, 2007. The unrecognized tax losses of approximately HK\$45,998,000 expired during the year ended December 31, 2007. The remaining unrecognized tax losses of HK\$917,000, HK\$1,004,000, HK\$1,848,000, HK\$2,571,000 and HK\$1,968,000 as at December 31, 2006, 2007 and 2008 and June 30, 2008 and 2009 respectively, will expire in five years from the year of origination.

11. RETIREMENT BENEFITS SCHEME

The employees of Hainan Cement Group in the Chinese Mainland are members of government-managed retirement benefit schemes operated by the respective local government in the Chinese Mainland. Hainan Cement Group is required to contribute a specified percentage of payroll cost to the retirement benefit scheme to fund the benefits. The only obligation of Hainan Cement Group with respect to these schemes is to make the specified contributions.

12. DIVIDENDS

On May 5, 2009, the directors of Hainan Cement declared final dividend of RMB20,000,000 (equivalent to approximately HK\$22,692,000) in respect of the year ended December 31, 2008. Amount of RMB6,753,000 (equivalent to HK\$7,662,000) was settled by offsetting amounts due from equity holders.

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13. FIXED ASSETS

HAINAN CEMENT GROUP

	Buildings	Plant and equipment	Logistic equipment	Others	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
At January 1, 2006	300,912	338,138	61,916	2,580	249,860	953,406
Additions	2,400	3,990	2,019	90	53,276	61,775
Transfer upon completion of construction in progress	97,901	179,846	9,653	116	(287,516)	—
Disposals	(1,298)	—	(425)	—	—	(1,723)
Exchange adjustments	11,085	12,456	2,281	95	9,204	35,121
At December 31, 2006	411,000	534,430	75,444	2,881	24,824	1,048,579
Additions	3,314	7,254	172	275	32,959	43,974
Transfer upon completion of construction in progress	7,332	49,343	—	6	(56,681)	—
Disposals	—	(375)	—	—	—	(375)
Exchange adjustments	29,451	38,296	5,406	209	1,779	75,141
At December 31, 2007	451,097	628,948	81,022	3,371	2,881	1,167,319
Additions	4,369	13,737	5,164	245	189,825	213,340
Disposals	—	—	(359)	—	—	(359)
Exchange adjustments	28,769	40,112	5,167	215	184	74,447
At December 31, 2008	484,235	682,797	90,994	3,831	192,890	1,454,747
Additions	441	1,320	762	161	353,082	355,766
Exchange adjustments	(537)	(757)	(101)	(4)	(219)	(1,618)
At June 30, 2009	484,139	683,360	91,655	3,988	545,753	1,808,895
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At January 1, 2006	57,208	177,310	10,713	1,934	—	247,165
Charge for the year	10,070	33,279	4,851	287	—	48,487
Written back on disposals	(25)	—	(314)	—	—	(339)
Exchange adjustments	2,324	7,248	492	77	—	10,141
At December 31, 2006	69,577	217,837	15,742	2,298	—	305,454
Charge for the year	10,743	37,050	4,959	188	—	52,940
Written back on disposals	—	(97)	—	—	—	(97)
Exchange adjustments	5,414	17,085	1,322	172	—	23,993
At December 31, 2007	85,734	271,875	22,023	2,658	—	382,290
Charge for the year	11,988	40,438	5,940	222	—	58,588
Written back on disposals	—	—	(337)	—	—	(337)
Exchange adjustments	5,629	17,890	1,474	172	—	25,165
At December 31, 2008	103,351	330,203	29,100	3,052	—	465,706
Charge for the period	6,090	18,848	3,136	125	—	28,199
Exchange adjustments	(114)	(365)	(32)	(3)	—	(514)
At June 30, 2009	109,327	348,686	32,204	3,174	—	493,391
CARRYING VALUES						
At December 31, 2006	341,423	316,593	59,702	583	24,824	743,125
At December 31, 2007	365,363	357,073	58,999	713	2,881	785,029
At December 31, 2008	380,884	352,594	61,894	779	192,890	989,041
At June 30, 2009	374,812	334,674	59,451	814	545,753	1,315,504

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HAINAN CEMENT

	Buildings	Plant and equipment	Logistic equipment	Others	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
At January 1, 2006	300,912	337,373	61,823	2,257	249,860	952,225
Additions	2,400	3,990	2,019	90	53,276	61,775
Transfer upon completion of construction in progress	97,901	179,846	9,653	116	(287,516)	—
Disposals	(1,298)	—	(425)	—	—	(1,723)
Exchange adjustments	11,085	12,428	2,277	83	9,204	35,077
At December 31, 2006	411,000	533,637	75,347	2,546	24,824	1,047,354
Additions	3,314	7,254	172	262	32,959	43,961
Transfer upon completion of construction in progress	7,332	49,343	—	6	(56,681)	—
Disposals	—	(375)	—	—	—	(375)
Exchange adjustments	29,451	38,239	5,399	183	1,779	75,051
At December 31, 2007	451,097	628,098	80,918	2,997	2,881	1,165,991
Additions	4,369	13,737	5,164	245	189,825	213,340
Disposals	—	—	(359)	—	—	(359)
Exchange adjustments	28,769	40,059	5,161	191	184	74,364
At December 31, 2008	484,235	681,894	90,884	3,433	192,890	1,453,336
Additions	441	1,317	762	161	353,082	355,763
Exchange adjustments	(537)	(755)	(101)	(4)	(219)	(1,616)
At June 30, 2009	484,139	682,456	91,545	3,590	545,753	1,807,483
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At January 1, 2006	57,208	176,879	10,690	1,680	—	246,457
Charge for the year	10,070	33,209	4,847	245	—	48,371
Written back on disposals	(25)	—	(314)	—	—	(339)
Exchange adjustments	2,324	7,231	491	67	—	10,113
At December 31, 2006	69,577	217,319	15,714	1,992	—	304,602
Charge for the year	10,743	36,986	4,949	174	—	52,852
Written back on disposals	—	(97)	—	—	—	(97)
Exchange adjustments	5,414	17,046	1,319	150	—	23,929
At December 31, 2007	85,734	271,254	21,982	2,316	—	381,286
Charge for the year	11,988	40,377	5,928	217	—	58,510
Written back on disposals	—	—	(337)	—	—	(337)
Exchange adjustments	5,629	17,850	1,471	150	—	25,100
At December 31, 2008	103,351	329,481	29,044	2,683	—	464,559
Charge for the period	6,090	18,827	3,125	120	—	28,162
Exchange adjustments	(114)	(364)	(32)	(3)	—	(513)
At June 30, 2009	109,327	347,944	32,137	2,800	—	492,208
CARRYING VALUES						
At December 31, 2006	341,423	316,318	59,633	554	24,824	742,752
At December 31, 2007	365,363	356,844	58,936	681	2,881	784,705
At December 31, 2008	380,884	352,413	61,840	750	192,890	988,777
At June 30, 2009	374,812	334,512	59,408	790	545,753	1,315,275

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Others mainly comprise furniture and equipment and leasehold improvements.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
Carrying values of buildings comprise:				
Properties in Chinese Mainland held on medium-term leases . .	341,423	365,363	380,884	374,812
Net interest capitalized included in construction in progress . . .	—	—	2,460	16,272

Hainan Cement Group and Hainan Cement have pledged fixed assets with the following carrying amounts to secure banking facilities granted to Hainan Cement Group and Hainan Cement.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at
	2006	2007	2008	June 30,
	HK\$'000	HK\$'000	HK\$'000	2009
Carrying amounts	107,473	157,806	382,465	362,577

14. PREPAID LEASE PAYMENTS

Prepaid lease payments represent medium-term leasehold land in Chinese Mainland.

Movements of prepaid lease payment, are as follows:

	HAINAN CEMENT GROUP AND HAINAN CEMENT
	HK\$'000
At January 1, 2006	14,155
Additions	1,911
Charge for the year	(418)
Exchange adjustments	511
At December 31, 2006	16,159
Charge for the year	(440)
Exchange adjustments	1,140
At December 31, 2007	16,859
Additions	7,557
Charge for the year	(598)
Exchange adjustments	1,068
At December 31, 2008	24,886
Charge for the period	(303)
Exchange adjustments	(28)
At June 30, 2009	24,555

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The lease terms of the prepaid lease payments ranged from 35 years to 50 years.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Analyzed for reporting purposes as:				
Current assets	427	458	606	605
Non-current assets	15,732	16,401	24,280	23,950
	<u>16,159</u>	<u>16,859</u>	<u>24,886</u>	<u>24,555</u>

Hainan Cement Group and Hainan Cement have pledged prepaid lease payments with the following carrying amounts to secure banking facilities granted to Hainan Cement Group and Hainan Cement.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amounts	<u>—</u>	<u>—</u>	<u>6,382</u>	<u>6,282</u>

15. INVESTMENT IN A SUBSIDIARY/AMOUNT DUE FROM A SUBSIDIARY/AMOUNT DUE TO A SUBSIDIARY

Investment in a subsidiary

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contribution, at cost	<u>996</u>	<u>1,068</u>	<u>1,136</u>	<u>1,135</u>

Amount due from/to a subsidiary are unsecured, interest-free and repayable on demand.

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16. INTEREST IN AN ASSOCIATE/INVESTMENT IN AN ASSOCIATE

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contribution, at cost	5,978	5,978	5,978	5,978
Share of (losses) profit	(167)	(989)	(649)	938
Exchange adjustments	(4)	380	727	720
	<u>5,807</u>	<u>5,369</u>	<u>6,056</u>	<u>7,636</u>

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contribution, at cost	5,978	5,978	5,978	5,978
Exchange adjustments	—	429	837	830
	<u>5,978</u>	<u>6,407</u>	<u>6,815</u>	<u>6,808</u>

The summarized financial information in respect of the associate of Hainan Cement Group is set out below:

	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	34,506	38,893	54,476	60,075
Total liabilities	(15,148)	(20,997)	(34,289)	(34,621)
Net assets	<u>19,358</u>	<u>17,896</u>	<u>20,187</u>	<u>25,454</u>
Share of net assets of an associate by Hainan Cement				
Group	<u>5,807</u>	<u>5,369</u>	<u>6,056</u>	<u>7,636</u>
Turnover	<u>18,035</u>	<u>58,160</u>	<u>143,624</u>	<u>49,027</u>
(Loss) profit for the year/period	<u>(558)</u>	<u>(2,741)</u>	<u>1,134</u>	<u>5,290</u>
Share of result of an associate by Hainan Cement Group for the year/period	<u>(167)</u>	<u>(822)</u>	<u>340</u>	<u>1,587</u>

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17. MINING RIGHTS

	HAINAN CEMENT GROUP AND HAINAN CEMENT
	HKS'000
COST	
At January 1, 2006	37,584
Exchange adjustments	1,384
At December 31, 2006	38,968
Exchange adjustments	2,792
At December 31, 2007	41,760
Exchange adjustments	2,664
At December 31, 2008	44,424
Exchange adjustments	(49)
At June 30, 2009	44,375
ACCUMULATED AMORTIZATION	
At January 1, 2006	11,009
Charge for the year	1,986
Exchange adjustments	448
At December 31, 2006	13,443
Charge for the year	2,091
Exchange adjustments	1,046
At December 31, 2007	16,580
Charge for the year	2,282
Exchange adjustments	1,088
At December 31, 2008	19,950
Change for the period	1,155
Exchange adjustments	(22)
At June 30, 2009	21,083
CARRYING VALUES	
At December 31, 2006	25,525
At December 31, 2007	25,180
At December 31, 2008	24,474
At June 30, 2009	23,292

The useful lives of mining rights ranged from 10 to 20 years.

Hainan Cement Group and Hainan Cement have pledged mining rights with the following carrying amounts to secure banking facilities granted to Hainan Cement Group and Hainan Cement.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HKS'000	HKS'000	HKS'000	HKS'000
Carrying amounts	—	—	24,474	23,292

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18. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment comprise:

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital contribution, at cost	996	—	—	—

The above unlisted investment represented investment in an unlisted private entity established in Chinese Mainland. The investment is measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of Hainan Cement are of the opinion that its fair value cannot be measured reliably.

The available-for-sale investment was disposed of during the year ended December 31, 2007 at a consideration of RMB1,000,000 (equivalent to approximately HK\$1,067,000) with no gain or loss recognized.

19. INVENTORIES

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials and consumables	48,038	68,490	85,948	65,090
Work in progress	7,880	4,817	13,447	8,590
Finished goods	2,616	2,923	8,870	25,848
	<u>58,534</u>	<u>76,230</u>	<u>108,265</u>	<u>99,528</u>

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials and consumables	48,018	68,465	85,803	64,945
Work in progress	7,880	4,817	13,447	8,590
Finished goods	2,616	2,923	8,870	25,848
	<u>58,514</u>	<u>76,205</u>	<u>108,120</u>	<u>99,383</u>

20. AMOUNTS DUE FROM EQUITY HOLDERS

The amounts were unsecured and interest-free as at December 31, 2006, 2007 and 2008 and the amounts were settled by offsetting with the dividend declared during the six months ended June 30, 2009.

21. AMOUNT DUE FROM AN ASSOCIATE

The amount was trade-related balance. It was unsecured, interest-free and repayable on demand. During the year ended December 31, 2008, an impairment loss on amount due from an associate of HK\$1,530,000 was recognized.

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22. TRADE RECEIVABLES

HAINAN CEMENT GROUP				
As at December 31,			As at June 30,	
2006	2007	2008	2009	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Trade receivables	51,177	21,095	14,730	21,304

HAINAN CEMENT				
As at December 31,			As at June 30,	
2006	2007	2008	2009	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Trade receivables	51,173	21,091	14,730	21,304

Hainan Cement Group and Hainan Cement have a policy of allowing a credit period ranging from 30 days to 90 days to its customers, from the date of issuance of invoices. The following is an aged analysis of trade receivables at the end of each reporting period.

HAINAN CEMENT GROUP				
As at December 31,			As at June 30,	
2006	2007	2008	2009	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
0 to 90 days	49,059	19,052	11,743	12,686
91 to 180 days	886	2,043	2,783	61
181 to 360 days	112	—	204	8,557
361 to 720 days	1,120	—	—	—
	51,177	21,095	14,730	21,304

HAINAN CEMENT				
As at December 31,			As at June 30,	
2006	2007	2008	2009	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
0 to 90 days	49,055	19,048	11,743	12,686
91 to 180 days	886	2,043	2,783	61
181 to 360 days	112	—	204	8,557
361 to 720 days	1,120	—	—	—
	51,173	21,091	14,730	21,304

Ageing of trade receivables which are past due but not impaired

HAINAN CEMENT GROUP AND HAINAN CEMENT				
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	886	2,043	2,783	61
Past due 91 to 180 days	112	—	204	8,557
Past due 181 to 360 days	1,120	—	—	—
Total	2,118	2,043	2,987	8,618

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Hainan Cement Group and Hainan Cement do not hold any collateral over these balances which are past due. Hainan Cement Group and Hainan Cement have no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Movement in the allowance for doubtful debts

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	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	1,231	1,408	11,700	14,079
Allowance recognized on receivables	129	9,801	1,611	—
Exchange adjustments	48	491	768	(16)
Balance at end of the year/period	<u>1,408</u>	<u>11,700</u>	<u>14,079</u>	<u>14,063</u>

In determining the recoverability of the trade receivables, Hainan Cement Group and Hainan Cement consider any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors of Hainan Cement believe that there is no further allowance required in excess of the current amount of allowance for doubtful debts.

23. OTHER RECEIVABLES

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments and deposits (Note a)	17,060	3,515	4,672	8,331
Deposits paid to suppliers (Note b)	5,222	9,890	20,038	6,547
Value-added tax, government incentive receivables and others (Note c)	6,188	1,337	—	8,956
Staff advances	2,373	2,447	1,126	2,144
Others (Note d)	191	329	163	543
	<u>31,034</u>	<u>17,518</u>	<u>25,999</u>	<u>26,521</u>

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments and deposits (Note a)	17,013	3,515	4,672	8,331
Deposits paid to suppliers (Note b)	5,222	9,890	20,038	6,547
Value-added tax, government incentive receivables and others (Note c)	6,188	1,337	—	8,935
Staff advances	2,327	2,379	997	1,327
Others (Note d)	170	329	162	543
	<u>30,920</u>	<u>17,450</u>	<u>25,869</u>	<u>25,683</u>

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Notes:

- (a) Prepayments and deposits mainly comprise the prepayments for electricity, insurance, petroleum expenses and rental deposits for the plant located in the Chinese Mainland.
- (b) Deposits paid to suppliers represent the deposits paid for purchase of raw materials.
- (c) Value-added tax ("VAT"), government incentive receivables and others represent the input VAT on purchase of raw materials, government incentives receivables (Note 38) and other tax recoverable.
- (d) Others represent interest receivables and temporary payments for constructors and customers.

24. PLEDGED BANK DEPOSITS

Bank deposits of HK\$283,000, HK\$26,944,000 and HK\$9,895,000 as at December 31, 2007 and 2008 and June 30, 2009 have been pledged to banks as guarantee payment to suppliers. The pledged bank deposits carried variable interest rates at 0.7% to 0.8%, 0.4% to 0.7% and 0.4% per annum for the year ended December 31, 2007 and 2008 and the six months ended June 30, 2009 respectively.

25. CASH AND BANK BALANCES

Cash and bank balances comprise cash held by Hainan Cement Group and Hainan Cement and short-term bank deposits with maturity within three months from initial inception.

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	Year ended December 31,			Six months ended June 30,
	2006	2007	2008	2009
	%	%	%	%
Interest rates of bank deposits per annum	0.7	0.7-0.8	0.4-0.7	0.4

26. TRADE PAYABLES

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	53,314	32,311	78,000	53,390

	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	53,311	32,304	77,996	53,338

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Hainan Cement Group and Hainan Cement normally receive credit periods of 30 days to 90 days from their suppliers. The following is an aged analysis of trade payables at the end of each reporting period:

HAINAN CEMENT GROUP				
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 90 days	49,396	29,835	69,962	46,194
91 to 180 days	2,153	1,220	3,576	1,526
181 to 360 days	1,124	290	463	3,958
361 to 720 days	641	966	3,999	1,712
	<u>53,314</u>	<u>32,311</u>	<u>78,000</u>	<u>53,390</u>

HAINAN CEMENT				
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0 to 90 days	49,393	29,829	69,958	46,142
91 to 180 days	2,153	1,220	3,576	1,526
181 to 360 days	1,124	290	463	3,958
361 to 720 days	641	965	3,999	1,712
	<u>53,311</u>	<u>32,304</u>	<u>77,996</u>	<u>53,338</u>

27. OTHER PAYABLES

HAINAN CEMENT GROUP				
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Payables to constructor and for the acquisition of fixed assets (Note a)	10,121	10,470	12,464	112,484
Guarantee deposits from suppliers (Note b)	265	617	662	783
Deposits from customers	8,862	17,147	20,242	25,355
Salaries and staff welfare payables	3,256	2,904	1,360	1,462
VAT and other tax payables	7,263	11,060	15,305	—
Transportation payables	1,642	4,184	9,297	5,618
Accrued expenses (Note c)	5,312	1,509	730	1,145
Others (Note d)	503	947	552	372
	<u>37,224</u>	<u>48,838</u>	<u>60,612</u>	<u>147,219</u>

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	HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Payables to constructors and for the acquisition of fixed assets (Note a)	10,121	10,470	12,464	112,484
Guarantee deposits from suppliers (Note b)	265	617	662	783
Deposits from customers	8,862	17,147	20,242	25,355
Salaries and staff welfare payables	3,050	2,578	1,263	1,447
VAT and other tax payables	7,263	11,060	15,294	—
Transportation payables	1,642	4,184	9,297	5,618
Accrued expenses (Note c)	5,218	1,293	650	988
Others (Note d)	319	826	406	250
	<u>36,740</u>	<u>48,175</u>	<u>60,278</u>	<u>146,925</u>

Notes:

- (a) Payables to constructors represent the construction costs payables after the completion of constructions in accordance with the terms in the agreements. Payables for the acquisition of fixed assets represent the unpaid balances for the fixed assets acquired.
- (b) Guarantee deposits from suppliers represent the quality guarantee money retained by Hainan Cement Group and Hainan Cement, which will be refunded to the constructors from 3 months to 1 year after the completion of the construction.
- (c) Accrued expenses mainly comprise utility expenses and selling expenses.
- (d) Others mainly comprise reimbursements to staff and other miscellaneous advances.

28. AMOUNT DUE TO AN EQUITY HOLDER

The amount represented the advances and accrued interests payable to an equity holder, namely Guo Tou. The advances amounted to HK\$159,449,000, HK\$170,874,000, HK\$181,772,000 and HK\$181,571,000 as at December 31, 2006, 2007 and 2008 and June 30, 2009 were unsecured, bears fixed interest at 4.4% per annum and were repayable on demand. The accrued interests of HK\$66,872,000, HK\$53,045,000, HK\$48,420,000 and HK\$44,474,000 were unsecured, repayable on demand and bears variable interest. The average interest rate on accrued interests was 6.8%, 8.1%, 8.1% and 10.9% per annum for the year ended December 31, 2006, 2007 and 2008 and the six months ended June 30, 2009 respectively.

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29. BANK LOANS

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans are repayable as follows:				
Within one year	98,924	76,645	63,610	63,540
After one year but within two years	15,942	17,085	40,892	78,290
After two years but within three years	15,942	17,085	74,969	56,732
After three years but within four years	15,942	17,084	56,795	56,732
After four years but within five years	15,944	—	56,795	56,732
Over five years	—	—	255,578	226,928
	162,694	127,899	548,639	538,954
Less: Amount due within one year included in current liabilities	(98,924)	(76,645)	(63,610)	(63,540)
Amount due after one year	63,770	51,254	485,029	475,414

All bank loans are secured and arranged at fixed rates as well as floating rates. The effective interest rates (which are also equal to contracted interest rates) on Hainan Cement Group's and Hainan Cement's bank loans ranged from 5.1% to 7.6%, 5.1% to 6.8%, 5.1% to 7.5% and 5.9% to 7.5% per annum for the year ended December 31, 2006, 2007 and 2008 and six months ended June 30, 2009, respectively.

The analysis of the terms of the bank loans as follows:

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fixed rate borrowings	—	42,712	45,436	45,386
Variable rate borrowings	162,694	85,187	503,203	493,568
	162,694	127,899	548,639	538,954

30. PAID IN CAPITAL

	Paid in capital	
	RMBS'000	HK\$'000
At January 1, 2006, December 31, 2006, 2007 and 2008 and June 30, 2009	520,750	500,441

There were no changes in Hainan Cement's paid in capital during the Relevant Periods.

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31. RESERVES

HAINAN CEMENT

	Capital surplus	Capital reserve	Statutory reserve	Translation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 1, 2006	510,767	103,591	3,573	(26,764)	(622,519)	(31,352)
Exchange differences arising on translation to presentation currency	—	—	—	36,774	—	36,774
Loss for the year	—	—	—	—	(13,657)	(13,657)
Transfer of reserve	—	—	556	—	(556)	—
At December 31, 2006	510,767	103,591	4,129	10,010	(636,732)	(8,235)
Exchange differences arising on translation to presentation currency	—	—	—	38,049	—	38,049
Profit for the year	—	—	—	—	69,748	69,748
Transfer of reserve	—	—	13,119	—	(13,119)	—
At December 31, 2007	510,767	103,591	17,248	48,059	(580,103)	99,562
Exchange differences arising on translation to presentation currency	—	—	—	39,815	—	39,815
Profit for the year	—	—	—	—	115,051	115,051
Transfer of reserve	—	—	18,469	—	(18,469)	—
At December 31, 2008	510,767	103,591	35,717	87,874	(483,521)	254,428
Exchange differences arising on translation to presentation currency	—	—	—	(837)	—	(837)
Profit for the period	—	—	—	—	24,084	24,084
Transfer of reserve	—	—	6,431	—	(6,431)	—
Dividends declared	—	—	—	—	(22,692)	(22,692)
At June 30, 2009	510,767	103,591	42,148	87,037	(488,560)	254,983

32. CAPITAL RISK MANAGEMENT

Hainan Cement Group manages its capital to ensure that entities within Hainan Cement Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. Hainan Cement Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of Hainan Cement Group consists of debts, which includes bank loans disclosed in note 29, and equity attributable to equity holders of Hainan Cement, comprising paid in capital and reserves.

The management of Hainan Cement review the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associates with each class of capital. Based on recommendations of the management, Hainan Cement Group will balance its overall structure through the payment of dividends, as well as the issue of new debts.

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33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	HAINAN CEMENT GROUP			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	99,516	105,778	508,188	257,150
Available-for-sale investment	996	—	—	—
	<u>100,512</u>	<u>105,778</u>	<u>508,188</u>	<u>257,150</u>
Financial liabilities				
Amortized cost	<u>463,737</u>	<u>410,127</u>	<u>887,174</u>	<u>933,290</u>
HAINAN CEMENT				
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	<u>98,438</u>	<u>103,425</u>	<u>507,055</u>	<u>256,052</u>
Financial liabilities				
Amortized cost	<u>463,552</u>	<u>409,673</u>	<u>887,096</u>	<u>933,101</u>

Financial risk management objectives and policies

Major financial assets and liabilities of Hainan Cement Group include amounts due from equity holders, amount due from an associate, trade and other receivables, pledged bank deposits, cash and bank balances, trade and other payables, amount due to an equity holder and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments are interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

Hainan Cement Group is exposed to interest rate risk mainly from its bank balances, pledged bank deposits, amount due to an equity holder and bank loans. Bank loans at variable interest rates expose Hainan Cement Group to fair value interest rate risk and cash flow interest rate risk respectively. Hainan Cement Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

Hainan Cement Group and Hainan Cement

Hainan Cement Group and Hainan Cement's sensitivity to interest rate risk has been determined based on the exposure to interest rate risk relating to the accrued interests payable to an equity holder and variable rate bank loans outstanding at the end of each reporting period. No sensitivity analysis is performed for bank balances as the fluctuation of interest rate on bank balances is considered not significant.

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If interest rate had been 50 basis points higher/lower and all other variables were held constant, Hainan Cement Group's loss would have been increased/decreased by approximately HK\$976,000 for the year ended December 31, 2006 and the profit would have been decreased/increased by approximately HK\$587,000, HK\$2,262,000 and HK\$1,076,000 for the year ended December 31, 2007 and 2008 and the six months ended June 30, 2009, respectively.

The 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 purpose and should not be considered a projection of future profits or losses.

Credit risk

Hainan Cement Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the end of each reporting period in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimize the credit risk, the management of Hainan Cement has formulated a defined credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, Hainan Cement Group reviews the recoverable amount of each individual trade receivable regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Hainan Cement consider that Hainan Cement Group's credit risk is significantly reduced.

Hainan Cement Group has no significant concentration of credit risk with exposure spread over a number of counterparties and customers as at December 31, 2006, 2007 and 2008 and June 30, 2009.

The credit risk for bank deposits is considered minimal as such amounts are placed in banks with high credit ratings.

Liquidity risk

In the management of the liquidity risk, Hainan Cement Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance Hainan Cement Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and amount due to an equity holder and ensures compliance with loan covenants.

Hainan Cement Group and Hainan Cement have net current liabilities as at December 31, 2006 and 2007 and June 30, 2009, which exposed Hainan Cement Group and Hainan Cement to liquidity risk. In order to mitigate the liquidity risk, the management regularly monitors the operating cash flows of Hainan Cement Group and Hainan Cement, to ensure sufficient reserves of cash to meet its liquidity requirements in the short and long term.

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The following table details the remaining contractual maturity of financial liabilities in Hainan Cement Group and Hainan Cement. The table has been drawn up to reflect the undiscounted cash flows of financial liabilities based on the earliest date on which Hainan Cement Group and Hainan Cement can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	HAINAN CEMENT GROUP						
	Weighted average interest rate	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At December 31, 2006							
Trade payables	—	53,314	—	—	—	53,314	53,314
Other payables	—	21,408	—	—	—	21,408	21,408
Amount due to an equity holder							
— Fixed rate	4.4	166,481	—	—	—	166,481	159,449
— Variable rate	6.8	71,446	—	—	—	71,446	66,872
Bank loans							
— Variable rate	5.9	112,844	30,298	51,919	—	195,061	162,694
		<u>425,493</u>	<u>30,298</u>	<u>51,919</u>	<u>—</u>	<u>507,710</u>	<u>463,737</u>
At December 31, 2007							
Trade payables	—	32,311	—	—	—	32,311	32,311
Other payables	—	25,998	—	—	—	25,998	25,998
Amount due to an equity holder							
— Fixed rate	4.4	178,410	—	—	—	178,410	170,874
— Variable rate	8.1	57,342	—	—	—	57,342	53,045
Bank loans							
— Fixed rate	6.8	44,409	—	—	—	44,409	42,712
— Variable rate	5.1	36,166	19,499	36,140	—	91,805	85,187
		<u>374,636</u>	<u>19,499</u>	<u>36,140</u>	<u>—</u>	<u>430,275</u>	<u>410,127</u>
At December 31, 2008							
Trade payables	—	78,000	—	—	—	78,000	78,000
Other payables	—	30,343	—	—	—	30,343	30,343
Amount due to an equity holder							
— Fixed rate	4.4	189,788	—	—	—	189,788	181,772
— Variable rate	8.1	52,342	—	—	—	52,342	48,420
Bank loans							
— Fixed rate	7.5	48,821	—	—	—	48,821	45,436
— Variable rate	6.0	19,890	98,434	253,558	295,221	667,103	503,203
		<u>419,184</u>	<u>98,434</u>	<u>253,558</u>	<u>295,221</u>	<u>1,066,397</u>	<u>887,174</u>
At June 30, 2009							
Trade payables	—	53,390	—	—	—	53,390	53,390
Other payables	—	114,901	—	—	—	114,901	114,901
Amount due to an equity holder							
— Fixed rate	4.4	189,578	—	—	—	189,578	181,571
— Variable rate	10.9	49,339	—	—	—	49,339	44,474
Bank loans							
— Fixed rate	7.5	45,646	—	—	—	45,646	45,386
— Variable rate	5.9	19,763	129,335	228,561	258,466	636,125	493,568
		<u>472,617</u>	<u>129,335</u>	<u>228,561</u>	<u>258,466</u>	<u>1,088,979</u>	<u>933,290</u>

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HAINAN CEMENT							
	Weighted average interest rate	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At December 31, 2006							
Trade payables	—	53,311	—	—	—	53,311	53,311
Other payables	—	21,018	—	—	—	21,018	21,018
Amount due to a subsidiary	—	208	—	—	—	208	208
Amount due to an equity holder							
— Fixed rate	4.4	166,481	—	—	—	166,481	159,449
— Variable rate	6.8	71,446	—	—	—	71,446	66,872
Bank loans							
— Variable rate	5.9	112,844	30,298	51,919	—	195,061	162,694
		<u>425,308</u>	<u>30,298</u>	<u>51,919</u>	<u>—</u>	<u>507,525</u>	<u>463,552</u>
At December 31, 2007							
Trade payables	—	32,304	—	—	—	32,304	32,304
Other payables	—	25,551	—	—	—	25,551	25,551
Amount due to an equity holder							
— Fixed rate	4.4	178,410	—	—	—	178,410	170,874
— Variable rate	8.1	57,342	—	—	—	57,342	53,045
Bank loans							
— Fixed rate	6.8	44,409	—	—	—	44,409	42,712
— Variable rate	5.1	36,166	19,499	36,140	—	91,805	85,187
		<u>374,182</u>	<u>19,499</u>	<u>36,140</u>	<u>—</u>	<u>429,821</u>	<u>409,673</u>
At December 31, 2008							
Trade payables	—	77,996	—	—	—	77,996	77,996
Other payables	—	30,089	—	—	—	30,089	30,089
Amount due to a subsidiary	—	180	—	—	—	180	180
Amount due to an equity holder							
— Fixed rate	4.4	189,788	—	—	—	189,788	181,772
— Variable rate	8.1	52,342	—	—	—	52,342	48,420
Bank loans							
— Fixed rate	7.5	48,821	—	—	—	48,821	45,436
— Variable rate	6.0	19,890	98,434	253,558	295,221	667,103	503,203
		<u>419,106</u>	<u>98,434</u>	<u>253,558</u>	<u>295,221</u>	<u>1,066,319</u>	<u>887,096</u>
At June 30, 2009							
Trade payables	—	53,338	—	—	—	53,338	53,338
Other payables	—	114,764	—	—	—	114,764	114,764
Amount due to an equity holder							
— Fixed rate	4.4	189,578	—	—	—	189,578	181,571
— Variable rate	10.9	49,339	—	—	—	49,339	44,474
Bank loans							
— Fixed rate	7.5	45,646	—	—	—	45,646	45,386
— Variable rate	5.9	19,763	129,335	228,561	258,466	636,125	493,568
		<u>472,428</u>	<u>129,335</u>	<u>228,561</u>	<u>258,466</u>	<u>1,088,790</u>	<u>933,101</u>

Fair values

The fair values of financial assets and financial liabilities of Hainan Cement Group and Hainan Cement are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

APPENDIX II

ACCOUNTANTS' REPORT OF HAINAN CEMENT

The directors of Hainan Cement consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

34. OPERATING LEASE COMMITMENTS

As lessee

At the end of each reporting period, Hainan Cement Group and Hainan Cement had outstanding commitments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000 (Note)	HK\$'000 (Note)	HK\$'000	HK\$'000
Within one year	293	488	196	28
In the second to fifth year inclusive	463	—	—	—
	<u>756</u>	<u>488</u>	<u>196</u>	<u>28</u>

Operating leases are negotiated for terms from 1 to 3 years.

Note: As at December 31, 2006 and 2007, the outstanding commitments represented a non-cancellable operating lease entered into by Changjiang Haidao on behalf of Hainan Concrete.

As lessor

At the end of each reporting period, Hainan Cement Group and Hainan Cement had no outstanding commitments in respect of land and buildings under non-cancellable operating leases. Rental income generated from the lease of staff quarters is recognized when services are rendered.

35. CAPITAL COMMITMENTS

Capital commitments for purchase and construction of fixed assets and acquisition of mining rights by Hainan Cement Group and Hainan Cement outstanding at the end of each reporting period are as follows:

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	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	<u>26,173</u>	<u>49,894</u>	<u>265,272</u>	<u>98,232</u>

APPENDIX II

ACCOUNTANTS' REPORT OF HAINAN CEMENT

36. RELATED PARTY TRANSACTIONS

- (a) Apart from details of the balances with related parties disclosed in the Financial Information during the Relevant Periods, Hainan Cement Group entered into following transactions with related parties:

	Year ended December 31,			Six months ended June 30,	
	2006	2007	2008	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Sales of goods to an associate	3,516	25,906	31,437	27,856	—
Interest expenses paid to an equity holder . .	—	28,952	20,650	—	10,038
Management fee paid to an equity holder . .	—	—	347	68	225

- (b) The key management personnel of Hainan Cement is disclosed in note 9.
- (c) In the opinion of the directors of Hainan Cement, the related party transactions were conducted on normal commercial terms and in the ordinary and usual course of business of Hainan Cement Group.
- (d) Hainan Cement Group operates in an economic environment currently denominated by entities directly or indirectly owned or controlled by the PRC government ("state-owned entities").

Apart from the disclosure in (a) above, Hainan Cement Group also conducts business with other state-owned entities. The directors consider those state-owned entities as independent third parties so far as Hainan Cement Group's business with them are concerned:

- i. Hainan Cement Group has certain deposits placements and borrowings with banks, which are state-owned entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of Hainan Cement are of the opinion that separate disclosure would not be meaningful.
- ii. Hainan Cement Group also has certain sales and purchases transactions with certain customers and suppliers in which the directors of Hainan Cement are of the opinion that it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-owned entities.

Except as disclosed above, the directors of Hainan Cement are of the opinion that the transactions with other state-owned entities are not significant to Hainan Cement Group's operations.

APPENDIX II

ACCOUNTANTS' REPORT OF HAINAN CEMENT

37. PLEDGE OF ASSETS

At the end of each reporting period, secured bank loans of Hainan Cement Group and Hainan Cement were secured by the following assets:

	HAINAN CEMENT GROUP AND HAINAN CEMENT			
	As at December 31,			As at June 30,
	2006	2007	2008	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Buildings	18,909	9,427	149,536	147,014
Plant and equipment	88,564	148,379	232,929	215,563
Prepaid lease payments	—	—	6,382	6,282
Mining rights	—	—	24,474	23,292
	<u>107,473</u>	<u>157,806</u>	<u>413,321</u>	<u>392,151</u>

38. GOVERNMENT INCENTIVES

	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
Incentive subsidies:					
(i) Business encouragement subsidies	—	—	9,144	3,003	1,884
(ii) Environmental protection subsidies	—	<u>2,978</u>	—	—	—
Amounts credited to consolidated statements of comprehensive income (Note 6)	—	<u>2,978</u>	<u>9,144</u>	<u>3,003</u>	<u>1,884</u>

Incentive subsidies were granted by the relevant government of the Chinese Mainland to Hainan Cement Group and Hainan Cement in the following basis:

- (i) The business encouragement subsidies were granted to Hainan Cement Group and Hainan Cement to encourage the establishment of cement manufacturing business in Hainan Island Province. The incentive subsidies granted to Hainan Cement Group and Hainan Cement were calculated according to the value-added tax paid by Hainan Cement Group and Hainan Cement for the sales of certain type of cement products.
- (ii) The environmental protection subsidies were granted to Hainan Cement Group and Hainan Cement as development funds to establish the environmental friendly manufacturing factory by making use of residual heat power, which is produced during the process of the manufacture of cement.

39. MAJOR NON-CASH TRANSACTION

On May 5, 2009, Hainan Cement declared final dividend of RMB20,000,000 (equivalent to approximately HK\$22,692,000) in respect of the year ended December 31, 2008 and an amount of RMB6,753,000 (equivalent to HK\$7,662,000) was settled by offsetting amounts due from equity holders.

APPENDIX II

ACCOUNTANTS' REPORT OF HAINAN CEMENT

B. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

Hainan Cement did not have ultimate holding company and immediate holding company throughout the Relevant Periods.

C. SUBSEQUENT EVENTS

There were no significant subsequent events after the reporting date of June 30, 2009.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Hainan Cement or any of the companies of Hainan Cement Group subsequent to June 30, 2009.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX III**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The information set out in this appendix does not form part of the accountants’ reports prepared by the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong as set out in “Appendix I — Accountants’ Report of the Company” and “Appendix II — Accountants’ Report of Hainan Cement” to this document, and are included herein for information only.

The unaudited pro forma financial information should be read in conjunction with “Financial Information” and “Appendix I — Accountants’ Report of the Company” and “Appendix II — Accountants’ Report of Hainan Cement” to this document.

A. UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE ENLARGED GROUP

The unaudited pro forma net assets statement of the Enlarged Group is prepared based on (i) the audited consolidated statement of financial position of the Group as at June 30, 2009, which has been extracted from the Accountants’ Report of the Company as set out in Appendix I to this document; and (ii) the audited consolidated statement of financial position of Hainan Cement and its subsidiary (“Hainan Cement Group”) as at June 30, 2009, which has been extracted from the Accountants’ Report of Hainan Cement as set out in Appendix II to this document, after making pro forma adjustments relating to the Acquisitions that are (i) directly attributable to the Acquisitions; and (ii) factually supportable as if the Acquisitions has been completed on June 30, 2009.

The unaudited pro forma net assets statement of the Enlarged Group is prepared by the directors of the Company to provide information about how the Acquisitions might affect the financial information of the Group. As it is prepared solely for illustrative purpose only, it does not purport to give a true picture of the financial position of the Enlarged Group following the completion of the Acquisitions.

APPENDIX III UNAUDITED PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA NET ASSETS STATEMENT OF THE ENLARGED GROUP 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
	<u>11,600,193</u>	<u>—</u>	<u>11,600,193</u>	<u>1,391,595</u>	<u>(59,876)</u>	<u>—</u>	<u>12,931,912</u>
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
	<u>3,568,555</u>	<u>—</u>	<u>3,568,555</u>	<u>372,161</u>	<u>(377,392)</u>	<u>(271,431)</u>	<u>3,291,893</u>
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
	<u>5,520,540</u>	<u>—</u>	<u>5,520,540</u>	<u>532,099</u>	<u>—</u>	<u>(271,431)</u>	<u>5,781,208</u>
Net current liabilities	<u>(1,951,985)</u>	<u>—</u>	<u>(1,951,985)</u>	<u>(159,938)</u>	<u>(377,392)</u>	<u>—</u>	<u>(2,489,315)</u>
Total assets less current liabilities	<u>9,648,208</u>	<u>—</u>	<u>9,648,208</u>	<u>1,231,657</u>	<u>(437,268)</u>	<u>—</u>	<u>10,442,597</u>
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
	<u>4,882,351</u>	<u>—</u>	<u>4,882,351</u>	<u>475,414</u>	<u>20,304</u>	<u>—</u>	<u>5,378,069</u>
	<u>4,765,857</u>	<u>—</u>	<u>4,765,857</u>	<u>756,243</u>	<u>(457,572)</u>	<u>—</u>	<u>5,064,528</u>

APPENDIX III**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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.

APPENDIX III**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

D. REPORTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for inclusion in this document, in respect of the unaudited pro forma net assets statement of the Enlarged Group, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

**ACCOUNTANTS’ REPORT ON UNAUDITED PRO FORMA NET ASSETS STATEMENT TO THE DIRECTORS OF CHINA RESOURCES CEMENT HOLDINGS LIMITED**

We report on the unaudited pro forma net assets statement of China Resources Cement Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), set out on pages [III-1] to [III-3] under the heading of “A. Unaudited Pro Forma Net Assets Statement of the Enlarged Group” (the “Unaudited Pro Forma Net Assets Statement”) in Appendix [III] to this document which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisitions of 29.13% and 34.14% equity interest in 國投海南水泥有限責任公司 (SDIC Hainan Cement Company Limited) by the Group might have affected the financial information of the Group. The basis of preparation of the Unaudited Pro Forma Net Assets Statement is set out on page [III-1] to [III-3] of this document.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Net Assets Statement with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

APPENDIX III**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Net Assets Statement is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at June 30, 2009 or any future date.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Net Assets Statement has been properly compiled by the directors of the Company on the basis stated; and
- b) such basis is consistent with the accounting policies of the Group.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
[Date]

APPENDIX IV

PROFIT FORECAST

Our forecast consolidated profit attributable to equity holders of our Company for the year ending December 31, 2009 is set out in the section headed “Financial Information — Profit Forecast for the year ending December 31, 2009” in this document.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the consolidated profit attributable to our equity holders for the year ending December 31, 2009, based on the audited consolidated financial statements of the Group for the six months ended June 30, 2009, the unaudited consolidated management accounts the Group for the two months ended August 31, 2009 and a forecast of the consolidated results of the Group for the remaining four months ending December 31, 2009. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarized in the Accountants’ Report of the Company as set out in Appendix I of this document. The profit forecast has been prepared on the following principal bases and assumptions:

- there will be no material changes in the existing rules, laws, regulations, or government policies (economic, political or legal), including changes in legislation or rules, regulatory, fiscal, economic or market conditions in the PRC including Hong Kong, the Cayman Islands, the British Virgin Islands, or any of the countries in which members of the Group currently operate or are established;
- there will be no material changes in inflation rate, interest rate or foreign currency exchange rate in the countries, regions or industries applicable to the business activities of the Group from those presently prevailing;
- there will be no material changes in the bases or rates of taxation or duties in the PRC including Hong Kong, the Cayman Islands, the British Virgin Islands, or any of the countries in which members of the Group operate or are established, except as otherwise disclosed in this document;
- there will be no wars, military incidents, pandemic diseases or natural disasters that would have a material impact on the Group’s business and operating activities;
- the Group’s operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in the section headed “Risk Factors” in this document;
- the Group’s production and operation will not be significantly affected by interruptions as a result of shortage of coal supply, electricity supply, labor disputes, technical barrier and any other reasons that are beyond the control of the Directors; and
- there will be no changes in technology, industry, safety standards, and environmental protection regulations in connection with the cement products that would have a significant negative impact on the Group’s operation in the PRC including Hong Kong, the Cayman Islands, the British Virgin Islands, any of the countries in which members of the Group currently operate or are established.

APPENDIX V

PROPERTY VALUATION

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this document received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of value of the property interests in the PRC and in Hong Kong as at June 30, 2009.



16th Floor
Jardine House
One Connaught Place
Central
Hong Kong

[Date]

The Board of Directors
China Resources Cement Holdings Limited
44th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by China Resources Cement Holdings Limited ("the Company") or its subsidiaries (hereinafter together referred to as "the Group") in the People's Republic of China (the "PRC") and in Hong Kong ("Hong Kong"), we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of the market values of those property interests as at June 30, 2009 (the "date of valuation").

Our valuation of each of the property interests represents the market value which in accordance with the HKIS Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation of each of the property interests excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the property interests held and occupied by the Group in the PRC, we have assumed that transferable land use rights in respect of the property interests for respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have assumed that the grantees or the users of the property interests have free and uninterrupted rights to use or assign the property interests for the whole of the respective unexpired terms as granted.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

APPENDIX V

PROPERTY VALUATION

In forming our opinion of values of property nos. A1 to A20 in Group I which are held and occupied by the Group in the PRC, due to the specific nature of the buildings and structures, there are no readily identifiable market sales comparables and the buildings and structures cannot be valued by comparison with appropriate market transactions. Therefore, we have adopted the Depreciated Replacement Cost ("DRC") Approach in valuing the property interests. The DRC Approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures, from which deductions are then made to allow for the age, condition and functional obsolescence. The DRC Approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

In forming our opinion of values of property nos. A21 to A24 in Group I which are held and occupied by the Group in the PRC, the property interests in Group III which are held and occupied by the Group in Hong Kong and the property interest in Group IV which is held by the Group for investment in Hong Kong, we have valued each of them by the Direct Comparison Method by making reference to comparable sales transactions as available in the relevant market or where appropriate by capitalizing the rental income derived from the existing tenancies with due provision for the reversionary income potential of the property interests.

The property interests in Groups II and V which are rented by the Group in the PRC and Hong Kong, are considered to have no commercial values due to the prohibitions against assignment of the property interests or otherwise due to the lack of substantial profit rents.

In valuing the properties, we have complied with the HKIS Valuation Standards (First Edition 2005) on Properties published by The Hong Kong Institute of Surveyors.

We have caused searches to be made at the Land Registry in Hong Kong, however, we have not searched the original documents to ascertain ownership or to verify any amendments. We have been provided with extracts of documents in relation to the title to the property interests in the PRC but we have not inspected the originals. We have relied upon information given to us by the Group and its PRC legal adviser, Concords & Partners, in respect of the Group's interest in the properties in the PRC.

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and the Group's PRC legal advisor and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, identification of properties, completion dates of buildings, construction costs, particulars of occupancy, site and floor areas and all other relevant matters.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or other structural defects. No test was carried out on any of the services. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no unexpected costs or delays will be incurred during the construction period.

We have not carried out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of documents provided to us are correct.

Unless otherwise stated, all money amounts stated in our valuations are in Renminbi ("RMB") of the property situated in PRC, the official currency of the PRC and in Hong Kong dollars ("HK\$") of the property situated in Hong Kong. The exchange rate adopted in our valuation is RMB1=HK\$1.1358 which was the approximate exchange rate prevailing as at the date of valuation. There has been no significant fluctuation in the said exchange rate between the date of valuation and the date of this letter.

APPENDIX V

PROPERTY VALUATION

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,

for and on behalf of

DTZ Debenham Tie Leung Limited

K.B. Wong

Registered Professional Surveyor

China Real Estate Appraiser

M.R.I.C.S., M.H.K.I.S.

Director

Note: Mr. K.B. Wong is a Registered Professional Surveyor who has more than 15 years of experience in the valuation of properties in the PRC and more than 24 years of experience in the valuation of properties in Hong Kong.

APPENDIX V		PROPERTY VALUATION		
SUMMARY OF VALUATIONS				
Property	Capital value in existing state as at June 30, 2009 RMB	Interest attributable to the Group %	Capital value in existing state attributable to the Group as at June 30, 2009 RMB	
Group I — Property interests held and occupied by the Group in the PRC				
A1. A cement plant at No. 108 Zhifu Road, Shuangding Town, Xixiangtang District, Nanning City, Guangxi ZAR, the PRC	52,800,000	100	52,800,000	
A2. A cement plant at Maoling Country, Fangcheng District, Fangchenggang City, Guangxi ZAR, the PRC	29,100,000	100	29,100,000	
A3. A cement plant at Eastern Plot of Binyang Town, Binyang County, Nanning City, Guangxi ZAR, the PRC	205,000,000	91.8	188,190,000	
A4. A cement plant at Huhe Village, Daling Village, Qintang District, Guigang City, Guangxi ZAR, the PRC	77,600,000	100	77,600,000	
A5. A cement plant at Sanhe Village, Danzhu Town, Pingnan County, Guigang City, Guangxi ZAR, the PRC	416,900,000	100	416,900,000	
A6. An industrial site at Feng Huang Shan, Qintang Village, Eastern Plot of Binyang Town, Binyang County, Nanning City, Guangxi ZAR, the PRC	34,400,000	91.8	31,579,200	
A7. A concrete plant at east of Jilin Road, north of Aomen Road, Beihai City, Guangxi ZAR, the PRC	5,100,000	100	5,100,000	

APPENDIX V		PROPERTY VALUATION		
	Property	Capital value in existing state as at June 30, 2009 RMB	Interest attributable to the Group %	Capital value in existing state attributable to the Group as at June 30, 2009 RMB
A8.	A concrete plant at No. 58-8 Youyi Road, Jiangnan District, Nanning City, Guangxi ZAR, the PRC	6,400,000	100	6,400,000
A9.	9 residential buildings at Luohe Village, Jiangbin Road, Pingnan County, Guigang City, Guangxi ZAR, the PRC	18,800,000	100	18,800,000
A10.	A cement plant at Shaaowan, Aotau, Dahao District, Shantou City, Guangdong Province, the PRC	26,200,000	100	26,200,000
A11.	A cement plant at Fulusha Management District, Shatian Town, Dongguan City, Guangdong Province, the PRC	147,800,000	100	147,800,000
A12.	A cement plant at east of Suixi Railway Station, Suixi County, Zhanjiang City, Guangdong Province, the PRC	21,900,000	100	21,900,000
A13.	A plot of land at Makeng, Shenwan Town, Zhongshan City, Guangdong Province, the PRC	780,000	91.8	716,040
A14.	A plot of land at Shenxi Village, Shenwan Town, Zhongshan City, Guangdong Province, the PRC	710,000	100	710,000

APPENDIX V		PROPERTY VALUATION		
	Property	Capital value in existing state as at June 30, 2009 RMB	Interest attributable to the Group %	Capital value in existing state attributable to the Group as at June 30, 2009 RMB
A15.	A plot of land at Min'an Village, Tingjiang Town, Fuzhou Development Zone, Mawei District, Fuzhou City, Fujian Province, the PRC	14,300,000	100	14,300,000
A16.	A concrete plant at Xincheng North No. 10 Area, Dinghu District, Zhaoqing City, Guangdong Province, the PRC	2,540,000	100	2,540,000
A17.	A plot of land at Hexi Industry Zone, Fangcheng District, Fangchenggang City, Guangxi ZAR, the PRC	No commercial value	100	No commercial value
A18.	A concrete plant at Area 1, Huangma Industry Park, Qinbei District, Qinzhou, Guangxi ZAR, the PRC	No commercial value	100	No commercial value
A19.	A plot of land at Xinqiao Town Industrial Park, Gaoyao City, Zhaoqing, Guangdong Province, the PRC	3,700,000	100	3,700,000
A20.	A plot of land at Dumiao Village, Changgang Town, Fengkai County, Guangdong Province, the PRC	37,000,000	100	37,000,000
A21.	A plot of land at No. 268 Yongandong Road, Litang Town, Binyang County, Nanning City, Guangxi ZAR, the PRC	No commercial value	72.8	No commercial value

APPENDIX V		PROPERTY VALUATION		
	Property	Capital value in existing state as at June 30, 2009 RMB	Interest attributable to the Group %	Capital value in existing state attributable to the Group as at June 30, 2009 RMB
A22.	Unit 201 and unit 202 of Block 1 and unit 203 of Block 2, Building 2, Zhengdi Garden, Beihu South Road, Nanning City, Guangxi ZAR, the PRC	1,800,000	72.8	1,310,400
A23.	Unit 13A, Block B, Jinlong Building, Jinsha East Road, Longhu District, Shantou City, Guangdong Province, the PRC	510,000	100	510,000
A24.	Unit 401, Block 22, Bibo Garden, Yanhe Road, Luohu District, Shenzhen City, Guangdong Province, the PRC	1,100,000	100	1,100,000
Sub-total of Group I in RMB:				1,084,255,640 (equivalent to approximately HK\$1,231,497,556)

APPENDIX V

PROPERTY VALUATION

Property	Capital value in existing state attributable to the Group as at June 30, 2009
Group II — Property interests rented by the Group in the PRC	
B1. A plot of land at the north coast of Xiaohe, west side of Xinshuizha, Fulusha Management District, Dongguan, Guangdong Province, the PRC	No commercial value
B2. A plot of land beside Chaolianzhishan Water Gate, Jianghai District, Jiangmen City, Guangdong Province, the PRC	No commercial value
B3. A plot of land at the north side of Nanwu Road, Xiangqiao Village, Santang Town, Xinning District, Nanning City, Guangxi ZAR, the PRC	No commercial value
B4. A plot of land at Shibu Town, Xixiangtang District, Nanning City, Guangxi ZAR, the PRC	No commercial value
B5. A plot of land at Caohu Industry Park, Hanxishui Village, Chashan Town, Dongguan, Guangdong Province, the PRC	No commercial value
B6. A plot of land at Caohu Industry Park, Hanxishui Village, Chashan Town, Dongguan, Guangdong Province, the PRC	No commercial value
B7. A plot of land at Xiaohe Industrial Park, Xiaohe Village, Daojiao Town, Dongguan City, Guangdong Province, the PRC	No commercial value

APPENDIX V	PROPERTY VALUATION
Property	Capital value in existing state attributable to the Group as at June 30, 2009
B8. A plot of land at Leijingwei, Liantang Village, Daze Town, Jiangmen City, Guangdong Province, the PRC	No commercial value
B9. A plot of land at Tiemaoding, Nikeng Village, Xiantang Town, Dongyuan County, Heyuan City, Guangdong Province, the PRC	No commercial value
B10. A plot of land at Guangming Industry Park, Chancheng District, Foshan City, Guangdong Province, the PRC	No commercial value
B11. A plot of land at Tan Zhou Industrial Zone 1st Road, Chencun Town, Shunde District, Foshan City, Guangdong Province, the PRC	No commercial value
B12. A plot of land at No.1 of Hebin, Tangxia Town, Pengjiang District, Jiangmen City, Guangdong Province, the PRC	No commercial value
B13. A plot of land at Biankeng Section, Langkou Village, Longhua Town, Baoan District, Shenzhen City, Guangdong Province, the PRC	No commercial value
B14. A plot land at Songmen, Minan Village, Tingjiang Town, Mawei District, Fuzhou City, Fujian Province, the PRC	No commercial value

APPENDIX V	PROPERTY VALUATION
Property	Capital value in existing state attributable to the Group as at June 30, 2009
B15. A plot of land at Dacheng Country, Pingnan County, Guigang City, Guangxi ZAR, the PRC	No commercial value
B16. A plot of land at Feiyao Team 1&2, Sanhe Village, Danzhu Town, Pingnan County, Guigang City, Guangxi ZAR, the PRC	No commercial value
B17. A plot of land at Old Jitun, Xinji Village, Daling Countryside, Qintang District, Guigang City, Guangxi ZAR, the PRC	No commercial value
B18. No. 99 Datang 2 Road, Jiangkou Town, Fengkai County, Zhaoqing City, Guangdong Province, the PRC	No commercial value
B19. No. 7 Minzu Road, Fuyang Town, Fuchuan County, Hezhou City, Guangxi ZAR, the PRC	No commercial value
B20. 4 rooms on Level 1, 2 and 4, No. 104 Minquan Street, Tianyang Town, Tianyang County, Baise City, Guangxi ZAR, the PRC	No commercial value
B21. Room 1-3, Level 2, ICBC Shangsi Subbranch Building, Zhonghua Road, Siyang Town, Shangsi County, Fangchenggang City, Guangxi ZAR, the PRC	No commercial value

APPENDIX V	PROPERTY VALUATION
Property	Capital value in existing state attributable to the Group as at June 30, 2009
B22. Level 4, CCB Building, No. 28 Huanzhu Avenue, Hepu County, Beihai City, Guangxi ZAR, the PRC	No commercial value
B23. Dorm of BOC, No. 28 Jiangbindong Road, Luchuan County, Guangxi ZAR, the PRC	No commercial value
B24. 2 buildings at Guijin Road, Guiping City, Guigang City, Guangxi ZAR, the PRC	No commercial value
B25. 15 rooms on Level 2-3, No. 1 Chengdong Road, Wuxuan Town, Wuxuan County, Laibin City, Guangxi ZAR, the PRC	No commercial value
B26. Room 601, 603 and 605, Merchants Building, China Merchants Zhangzhou Development Zone, Zhangzhou City, Fujian Province, the PRC	No commercial value
B27. Room 2 and 3 of a residential house, Hexi Industrial Park, Fangchenggang District, Fangchenggang City, Guangxi ZAR, the PRC	No commercial value
B28. No. 302, Block 6, No. 39-5 Zhongshaubei Road, Guigang City, Guangxi ZAR, the PRC	No commercial value

APPENDIX V

PROPERTY VALUATION

Property	Capital value in existing state attributable to the Group as at June 30, 2009
B29. Unit 1, Block 10, Hongtainingcheng, No. 246 Rongjun Road, Luizhou, Guangxi ZAR, the PRC	No commercial value
B30. A complex building, Songmen, Minan Village, Tingjiang Town, Mawei District, Fuzhou City, Fujian Province, the PRC	No commercial value
B31. Unit Nos. 301-308, Songmen, Minan Village, Tingjiang Town, Mawei District, Fuzhou City, Fujian Province, the PRC	No commercial value
B32. Unit Nos. 1701, 1702 and 1706, Level 17, Huarun Building, No. 5001 Shennan East Road, Shenzhen, Guangdong Province, the PRC	No commercial value
B33. Unit Nos. 1609 and 1610, Qingxiu District Complex Building, No. 68 Dongge Road, Nanning City, Guangxi ZAR, the PRC	No commercial value
B34. Unit E2-503, Phase 2 of Xihuyuan, Caiyuan Village, Xibei Town, Xinluo District, Longyou, Fujian Province, the PRC	No commercial value

APPENDIX V	PROPERTY VALUATION
Property	Capital value in existing state attributable to the Group as at June 30, 2009
B35. An unit at Fenghuang Villa, Chengxiang District, Putian City, Fujian Province, the PRC	No commercial value
B36. A plot of land at east of No. 325 Notional Road, Yinwu Management District, Huanglue Town, Suixi Country, Zhanjiang City, Guangdong Province, the PRC	No commercial value
B37. Unit 204, Block 40, Third District, Binjiangyuan Garden, Laibin City, Guangxi ZAR, the PRC	No commercial value
B38. Room 422 of Unit 2, Block 3, Jindingshijia Garden, Baise City, Guangxi ZAR, the PRC	No commercial value
B39. Room 101-109, Fengkai Party Guesthouse, No. 99 Datanger Road, Jiangkou Town, Fenkai Country, Zhaoqing City, Guangdong Province, the PRC	No commercial value
B40. Room 201-209, Fengkai Party Guesthouse, No. 99 Datanger Road, Jiangkou Town, Fenkai Country, Zhaoqing City, Guangdong Province, the PRC	No commercial value
Sub-total of Group II:	<u>No commercial value</u>

APPENDIX V		PROPERTY VALUATION		
Property	Capital value in existing state as at June 30, 2009 HK\$	Interest attributable to the Group %	Capital value in existing state attributable to the Group as at June 30, 2009 HK\$	
Group III — Property interests held and occupied by the Group in Hong Kong				
C1. Portion of Ground Floor, Wah Tung Godown and portion of Yau Tong Marine Lot No. 70 (“Yau Tong Lot”), No. 4 Tung Yuen Street, Yau Tong, Kowloon	22,000,000	100	22,000,000	
C2. No. 6 Tung Yuen Street, Yau Tong, Kowloon	96,000,000	100	96,000,000	
C3. The Remaining Portions of Lot Nos. 1265, 1207 and 1842 and Section A of Lot No. 1208 all in Demarcation District No. 121, Tong Yan San Tsuen Road, Tong Yan San Tsuen, Yuen Long, New Territories	15,000,000	100	15,000,000	
C4. The Remaining Portion of Lot No. 1390, Section A of Lot No. 1391, Lot Nos. 1393, 1394 and 1395 all in Demarcation District No. 121, Ma Fung Ling Road, Tong Yan San Tsuen, Yuen Long, New Territories	2,400,000	100	2,400,000	
Sub-total of Group III in HK\$:			135,400,000	
Group IV —Property interest held by the Group for investment in Hong Kong				
C5. The Bucket Elevator Room on Ground Floor, Half of 1st Floor and one Ramped Driveway from Ground Floor to 1st Floor, one Hopper Room and one Shaft Area (formerly called the Bucket Elevator Shaft) on 2nd Floor, one Storage Bin on the side of the Bucket Elevator of the building from 3rd Floor upwards to the Roof of the building and the Roof of one Storage Bin on 12th Floor level, Safety Godown Industrial Building, No. 56 Ka Yip Street, Chai Wan, Hong Kong	34,000,000	100	34,000,000	
Sub-total of Group IV in HK\$:			34,000,000	

APPENDIX V

PROPERTY VALUATION

Property	Capital value in existing state attributable to the Group as at June 30, 2009
Group V — Property interests rented by the Group in Hong Kong	
D1. The Remaining Portion of Lot No. 1263 in Demarcation District No. 121, Tong Yan San Tsuen Road, Yuen Long, New Territories	No commercial value
D2. Lot No. 2899 in Demarcation District No. 111, Pat Heung, Yuen Long, New Territories	No commercial value
D3. Berth No. TM11 at Tuen Mun Public Cargo Working Area, Area 16, Tuen Mun, New Territories	No commercial value
D4. Factories A and B on 7th Floor, Block 3, Tai Ping Industrial Centre, No. 53 Ting Kok Road, Tai Po, New Territories	No commercial value
D5. 8th Floor, Kaiseng Commercial Centre, Nos. 4-6 Hankow Road, Tsimshatsui, Kowloon	No commercial value
D6. Land adjoining the Remaining Portion of Lot Nos. 1263, 1265, 1207, 1208, 1842 and Section A of Lot No. 1208 all in Demarcation District No. 121, Tong Yan San Tsuen, Yuen Long, New Territories	No commercial value
Sub-total of Group V:	<u>No commercial value</u>
Grand Total in HK\$:	<u><u>1,400,897,556</u></u>

APPENDIX V

PROPERTY VALUATION

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A1. A cement plant at No. 108 Zhifu Road, Shuangding Town, Xixiangtang District, Nanning City, Guangxi ZAR, the PRC	The property comprises the land and buildings of a cement plant erected on 5 plots of land with a total site area of approximately 461,368.08 sq.m. (4,966,166 sq.ft.) completed in 2007. Among them, a plot of land with a site area of approximately 355,522.82 sq.m. (3,826,848 sq.ft.) has been obtained valid title certificate (see Note (1) below). The property also comprises 4 plots of land with a total site area of approximately 105,845.26 sq.m. (1,139,318 sq.ft.) without title certificate (see Note (2) below). The property has a total gross floor area of approximately 27,431 sq.m. (295,267 sq.ft.) without title certificates. The land use rights of the property with a total site area of 355,522.82 sq.m. have been granted for a term of 50 years due to expire on December 14, 2056 for industrial use.	The property is currently owner-occupied for cement production plant.	RMB52,800,000 (for a plot of land with a site area of approximately 355,522.82 sq.m.) (100% interests attributable to the Group: RMB52,800,000) (see Note (2) below)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2008) 506495, the land use rights of the property comprising a site area of 355,522.82 sq.m. have been granted to China Resources Cement (Nanning) Limited, a wholly-owned subsidiary of the Company for a term of 50 years due to expire on December 14, 2056 for industrial use.
- (2) In the course of our valuation, we have ascribed no commercial value to portion of the property of which the Certificate for the Use of State-owned Land of 105,845.26 sq.m. and Building Ownership Certificate of 27,431 sq.m. has not been obtained. Had a valid Certificate for the Use of State-owned Land and Building Ownership Certificate been issued to the said portion of the property, all land premium and related fees for the grant of the Certificates been fully settled, the market value of the said portion of the property as at June 30, 2009 would be RMB54,000,000 (100% interest attributable to the Group: RMB54,000,000).

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PROPERTY VALUATION

- (3) According to 4 Planning Permits for Construction Use of Land, the planning of the site of the property was in compliance with the requirement of urban planning and was permitted to be developed with a total site area of 105,845.26 sq.m. The land user have been changed to China Resources Cement (Nanning) Limited (華潤水泥(南寧)有限公司), the details are summarized as follows:

Permit No.	Use of Land	Site Area (sq.m.)
(2006) 3017	Mining	25,610.07
(2006) 3018	Warehousing	19,899.16
(2006) 3019	Water pump station	895.09
(2007) 3001	Warehousing	59,440.94
		<u>105,845.26</u>

According to the said Planning Permits for Construction Use of Land, their valid period has expired.

- (4) According to Business License No. 929 dated November 9, 2004, China Resources Cement (Nanning) Limited (LOGO) was established with a registered capital of US\$29,400,000 and a valid operation period from November 9, 2004 to November 9, 2054.
- (5) According to the PRC legal opinion:
- (i) China Resources Cement (Nanning) Limited (華潤水泥(南寧)有限公司) has legally obtained the land use rights of the property with a total site area of approximately 355,522.82 sq.m. China Resources Cement (Nanning) Limited (華潤水泥(南寧)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property;
 - (ii) China Resources Cement (Nanning) Limited (華潤水泥(南寧)有限公司) has no legal obstacles to obtain the Certificate for the Use of State-owned Land of 4 plots of land with a total site area of approximately 105,845.26 sq.m. if the Grant Contract for the Use of State-owned Land has been signed between China Resources Cement (Nanning) Limited (華潤水泥(南寧)有限公司) and the Land Administration Bureau and all land premium has been settled in full; and
 - (iii) China Resources Cement (Nanning) Limited (華潤水泥(南寧)有限公司) has no legal obstacles to obtain the Building Ownership Certificate if the construction project had been completed in accordance with Planning Permit for Construction Use of Land and Planning Permit for Construction Works.
- (6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes (Part)
Building Ownership Certificate	No
Planning Permit for Construction Use of Land	Yes
Business License	Yes

APPENDIX V

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A2. A cement plant at Maoling Country, Fangcheng District, Fangchenggang City, Guangxi ZAR, the PRC	The property comprises the land and buildings of a cement plant buildings erected upon a plot of land with a site area of approximately 128,592.00 sq.m. (1,384,164 sq.ft.) completed in 1998. The property has a total gross floor area of approximately 4,807.57 sq.m. (51,749 sq.ft.). The land use rights of the property have been granted for a term of 50 years due to expire on May 13, 2046 for industrial use.	The property is currently owner-occupied as cement production plant.	RMB29,100,000 (100% interest attributable to the Group: RMB29,100,000)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2006) 102 issued by Fangchenggang City Fangcheng District Land Resources Bureau (防城港市防城区国土资源局), the land use rights of the property comprising a site area of 128,592.00 sq.m. has been granted to China Resources Cement (Fangchenggang) Limited (華潤水泥(防城港)有限公司), a wholly-owned subsidiary of the Company, for a term due to expire on May 13, 2046 for industrial use.
- (2) According to 14 Building Ownership Certificates, the property comprising a total gross floor area of 4,807.57 sq.m. has been granted to China Resources Cement (Fangchenggang) Limited (華潤水泥(防城港)有限公司), a wholly-owned subsidiary of the Company.
- (3) According to Business License No. 000314 dated December 16, 2005, China Resources Cement (Fangchenggang) Limited (華潤水泥(防城港)有限公司), was established with a registered capital of HK\$15,000,000 and a valid operation period from December 16, 2005 to December 15, 2055.
- (4) According to the PRC legal opinion:
 - (i) China Resources Cement (Fangchenggang) Limited (華潤水泥(防城港)有限公司) has legally obtained the land use rights and building ownership of the property;
 - (ii) China Resources Cement (Fangchenggang) Limited (華潤水泥(防城港)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights and building ownership of the property; and
 - (iii) The land use rights and building ownership of the property is not subject to any mortgage.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business License	Yes

APPENDIX V

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A3. A cement plant at Eastern Plot of Binyang Town, Binyang County, Nanning City, Guangxi ZAR, the PRC	The property comprises the land and buildings of a cement plant erected upon 7 plots of land with a total site area of approximately 1,629,460.63 sq.m. (17,539,514 sq.ft.) completed in different phases from 1984 to 2005. The property has a total gross floor area of approximately 100,373.34 sq.m. (1,080,419 sq.ft.), The land use rights of the property have been granted for various terms mainly for production plant, quarry, highway and industrial uses.	The property is currently occupied by the Group as production plant, quarry, highway and other ancillary uses.	RMB205,000,000 (91.8% interest attributable to the Group: RMB188,190,000)

Notes:

- (1) According to 7 Certificates for the Use of State-owned Land all issued by Binyang County Land Administration Bureau (賓陽縣國土資源局), the land use rights of the property comprising a total site area of 1,629,460.63 sq.m. has been granted to Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司), a 91.8% owned subsidiary of the Company, for various terms and the details are summarized as follows:

Certificate No.	Location	Use of Land	Date of Expiry	Site Area (sq.m.)
(2002) 08	No. 268 Yong An Dong Road, Binyang Town, Binyang County	Production plant	January 23, 2052	481,769.33
(2002) 09	No. 268 Yong An Dong Road, Binyang Town, Binyang County	Lime stone quarry	January 23, 2052	813,180.00
(2002) 10	Eastern Plot of Binyang Town, Binyang County	Sand stone quarry	January 23, 2052	154,346.67
(2002) 11	Eastern Plot of Binyang Town, Binyang County	Highway for sand stone quarry	January 23, 2052	59,849.40
(2002) 12	Eastern Plot of Binyang Town, Binyang County	Sand stone crushing	January 23, 2052	20,986.67
(2002) 13	Lincunshandi, Chao Chang Village, Binyang Town, Binyang County	Highway for quarry	January 23, 2052	34,637.66
(2005) 263	East District, Binyang Town	Industrial	March 22, 2055	64,690.90
Total:				<u>1,629,460.63</u>

APPENDIX V

PROPERTY VALUATION

- (2) According to 7 Grant Contracts for the Use of State-owned Land all issued by Binyang County Land Administration Bureau (賓陽縣土地管理局) (Party A), the land use rights of the property comprising a total site area of 1,629,460.63 sq.m. were granted to Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河水泥股份有限公司) (Party B for Land Lot Nos. 1 to 6), a 72.14% owned subsidiary of the Company and Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) (Party C for Land Lot No. 7), a 91.8% owned subsidiary of the Company respectively and the details are summarized as follows:

Grant contract no.	Use of Land	Date of Expiry	Site area (sq.m.)	Grantee	Land Premium (RMB)
(2002) 35	Transportation/Highway	January 23, 2052	34,637.66	Party B	17,318.83
(2002) 36	Transportation/Road	January 23, 2052	59,849.40	Party B	29,923.34
(2002) 37	Transportation/Road	January 23, 2052	481,769.33	Party B	240,884.67
(2002) 38	Plant Room Construction	January 23, 2052	20,986.67	Party B	10,493.34
(2002) 39	Production Plant	January 23, 2052	154,346.67	Party B	77,173.34
(2002) 40	Raw Material/Quarry	January 23, 2052	813,180.00	Party B	406,590.00
(2005) 124	Industrial	March 22, 2055	64,690.90	Party C	2,102,000
Total:			1,629,460.63		

- (3) According to Building Ownership Certificate No. 20020059 issued by Binyang County Real Estate Administration Bureau (賓陽縣房屋管理局) on January 22, 2002, the building ownership of the property comprising 189 buildings and structures with a total gross floor area of 97,905.77 sq.m. are held by Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司).

According to the information provided to us and our site inspection, we note that some buildings had been demolished and only 139 buildings with a total gross floor area of 86,879.29 sq.m. are being occupied. As per the instruction by the Group, we have valued the property with a total gross floor area of 86,879.29 sq.m.

According to 7 Building Ownership Certificates, the property comprising a total gross floor area of 13,494.05 sq.m. has been vested in Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司), a 91.8% owned subsidiary of the Company.

- (4) According to Business License No. 45010040000093 dated April 20, 2004, Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) was established as a Sino-foreign equity joint venture enterprise with a registered capital of RMB200,000,000 and a valid operation period from December 24, 2001 to December 24, 2051.
- (5) According to the PRC legal opinion:
- (i) Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) has legally obtained the land use rights and building ownership of the property;
 - (ii) Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights and building ownership of the property; and
 - (iii) The land use rights and building ownership of the property is not subject to any mortgage.

APPENDIX V

PROPERTY VALUATION

- (6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Grand Contracts for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business License	Yes

APPENDIX V

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A4. A cement plant at Huhe Village, Daling Village, Qintang District, Guigang City, Guangxi ZAR, the PRC	The property comprises the land and buildings of a cement plant erected upon 3 plots of land with a total site area of approximately 479,127.88 sq.m. (5,157,333 sq.ft.) completed in 2005. Among them, a plot of land with a site area of approximately 366,601.73 sq.m. (3,946,101 sq.ft.) has been obtained valid title certificate (see Note (1) below). As advised, the property also comprises another 2 plots of land with a total site area of approximately 112,526.15 sq.m. (1,211,231 sq.ft.) without any title certificate (see Note (2) below). The property has a total gross floor area of approximately 13,203.68 sq.m. (142,124 sq.ft.) with title certificate and 5,838.52 sq.m. (62,846 sq.ft.) without title certificate (see Note (2) below). The land use rights of the property with a total site area of 366,601.73 sq.m. have been granted for a term of 50 years due to expire on September 15, 2055 for industrial use.	The property is currently owner-occupied as cement production plant.	RMB77,600,000 (for a plot of land with a total site area of approximately 366,601.73 sq.m. and a total gross floor area of 13,203.68 sq.m. only) (100% interests attributable to the Group: RMB77,600,000) (see Note (2) below)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2005) 1270, the land use rights of the property comprising a site area of 366,601.73 sq.m. have been granted to China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司), a wholly-owned subsidiary of the Company for a term due to expire on September 15, 2055 for industrial use.
- (2) In the course of our valuation, we have ascribed no commercial value to portion of the property of which the Certificate for the Use of State-owned Land of 112,526.15 sq.m. and Building Ownership Certificate of 5,838.52 sq.m. have not been obtained. Had a valid Certificate for the Use of State-owned Land and Building Ownership Certificate been issued to the said portion of the property, all land premium and related fees for the grant of the Certificates been fully settled, the market value of the said portion of the property as at June 30, 2009 would be RMB23,400,000 (100% interest attributable to the Group: RMB23,400,000).
- (3) According to 7 Building Ownership Certificates, the property comprising a total gross floor area of 13,203.68 sq.m. has been granted to China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司), a wholly-owned subsidiary of the Company.

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- (4) According to Grant Contract for the Use of State-owned Land No. (2005) 192, the land use right of the property comprising a site area of 366,601.73 sq.m., has been granted to China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司), for a term of 50 years commencing from September 15, 2005 for industrial use with land premium of RMB40,296,862.
- (5) According to Grant Contract for the Use of State-owned Land No. (2007) 221 and its Supplement Contract, the land use right of the property comprising a site area of 38,715.26 sq.m., has been granted to China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司) for a term of 50 years for industrial use.
- (6) According to Approval Document to the Construction Use of Land, Phase II of the property has been permitted to develop on the plot of land with a site area of approximately 73,810.89 sq.m. (87 mu land for factory area and 23 mu land for factory road).
- (7) According to Business License No. 003538 dated April 29, 2006, China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司) was established with a registered capital of US\$55,104,000 and has a valid operation period from January 12, 2004 to December 31, 2006.
- (8) According to the PRC legal opinion:
 - (i) China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司) has legally obtained the land use rights of the property with a total site area of 366,601.73 sq.m. China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property;
 - (ii) China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司) has no legal obstacles to obtain the Certificate for the Use of State-owned Land of 4 plots of land with a total site area of approximately 112,526.15 sq.m. if the Grant Contract for the Use of State-owned Land has been signed between China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司) and the Land Administration Bureau and all land premium has been settled in full;
 - (iii) China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司) has legally obtained the building ownership of the property, comprising a total gross floor area of 13,203.68 sq.m. China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司) has right to occupy, use, transfer, lease and mortgage of the building ownership of the property;
 - (iv) China Resources Cement (Guigang) Limited (華潤水泥(貴港)有限公司) has no legal obstacles to obtain the Building Ownership Certificate with a gross floor area of approximately 5,838.52 sq.m. if the construction project had been completed in accordance with Planning Permit for Construction Use of Land and Planning Permit for Construction Works; and
 - (v) The land use rights and building ownership of the property is not subject to any mortgage.
- (9) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes (Part)
Grant Contract for the Use of State-owned Land	Yes (Part)
Building Ownership Certificate	Yes (Part)
Approval Document	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A5. A cement plant at Sanhe Village, Danzhu Town, Pingnan County, Guigang City, Guangxi ZAR, the PRC	The property comprises the land and buildings of a cement plant erected upon 6 plots of land with a total site area of approximately 4,478,751.81 sq.m. (48,209,284 sq.ft.) completed in 2008. Among them, 5 plots of land with a total site area of approximately 4,128,350.06 sq.m. (44,437,560 sq.ft.) has been obtained valid title certificate. (see Note (1) below). As advised, the property also comprises another plot of land with a site area of approximately 350,401.75 sq.m. (3,771,724 sq.ft.) without any title certificate. (see Note (2) below). As advised, the property comprises 2 phases of development. Phase 1 was completed in 2004 and it comprises various cement factories and ancillary residential buildings. Phase 2 comprises cement factories, offices and ancillary residential buildings. The property has a total gross floor area of 183,143.54 sq.m. (1,971,357 sq.ft.) The land use rights of the property with a total site area of 4,128,350.06 sq.m. have been granted for respective terms of 50 years with the latest expiring on August 24, 2055 for industrial and mining uses.	The property is currently owner-occupied as cement production plant.	RMB416,900,000 (for 5 plots of land with a total site area of approximately 4,128,350.06 sq.m. and a total gross floor area of approximately 183,143.54 sq.m. only) (100% interests attributable to the Group: RMB416,900,000) (see Note (2) below)

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Notes:

- (1) According to 5 Certificates for the Use of State-owned Land all issued by the Pingnan County Land Resources Administrative Bureau (平南縣國土資源局), the land use right of the property comprising a total site area of 4,128,350.06 sq.m. has been granted to Guangxi Pingnan China Resources Yufeng Cement Company Limited (廣西平南華潤魚峰水泥有限公司) (which has been renamed as China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司), a wholly-owned subsidiary of the Company) with details as follows:

Certificate No.	Location	Use of Land	Date of Expiry	Site Area (sq.m.)
(2008) 260015045-1	Sanhe Village, Danzhu Town, Pingnan County	Industrial	October 10, 2054	433,332.76
(2008) 260015046-1	Sanhe Village, Danzhu Town, Pingnan County	Mining	September 20, 2054	2,955,201.50
(2008) 260015047-1	Sanhe Village, Danzhu Town, Pingnan County	Industrial	August 24, 2055	21,992.00
(2008) 260015048-1	Sanhe Village, Danzhu Town, Pingnan County	Industrial	August 24, 2055	73,487.30
(2008) 260015049-1	Sanhe Village, Danzhu Town, Pingnan County	Mining	September 20, 2054	644,336.50
Total:				<u>4,128,350.06</u>

- (2) In the course of our valuation, we have ascribed no commercial value to portion of the property of which the Certificate for the Use of State-owned Land of 350,401.75 sq.m. has not been obtained. Had a valid Certificate for the Use of State-owned Land been issued to the said portion of the property, all land premium and related fees for the grant of the Certificates been fully settled, the market value of the said portion of the property as at June 30, 2009 would be RMB19,800,000 (100% interest attributable to the Group: RMB19,800,000).
- (3) According to 90 Building Ownership Certificates issued by County People's Government (平南縣人民政府), the property comprising a total gross floor area of 183,143.54 sq.m. has been vested in China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司), a wholly-owned subsidiary of the Company.
- (4) According to Approval Document No. (2005) 40 issued by Peoples' Government of Guangxi ZAR (廣西壯族自治區人民政府) on June 20, 2005, Guangxi Pingnan China Resources Yufeng Cement Company Limited (廣西平南華潤魚峰水泥有限公司) (which has been renamed as China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司), a wholly-owned subsidiary of the Company has been permitted to develop on a plot of land with a site area of approximately 9.547 hectares (95,479 sq.m.) for construction use.

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- (5) According to a Land Transfer Agreement entered into between China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) (Party A) and Guangxi Pingnan County Industrial Investment Company Limited (廣西平南縣工業投資有限公司) (Party B) on October 20, 2005, Party B has agreed to transfer a plot of land, comprising a site area of 41.324 mu (27,550 sq.m.), to Party A for a consideration of RMB1,446,375.
- (6) According to Planning Permit for Construction Work No. 2003015 dated September 28, 2003, the property is permitted to be developed into a 4,000 tons plant and pier.
- (7) According to Business License No. 450000400003524 date March 13, 2009, China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司), was established with a registered capital of RMB1,080,780,000 and a valid operation period from November 4, 2003 to November 4, 2051.
- (8) According to the PRC legal opinion:
 - (i) China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) has legally obtained the land use rights of the property with a total site area of 4,128,350.06 sq.m. China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property;
 - (ii) China Resources Cement (Nanning) Limited (華潤水泥(平南)有限公司) has no legal obstacles to obtain the Certificate for the Use of State-owned Land of 4 plots of land with a total site area of approximately 350,410.75 sq.m. if the Grant Contract for the Use of State-owned Land has been signed between China Resources Cement (Nanning) Limited (華潤水泥(平南)有限公司) and the Land Administration Bureau and all land premium has been settled in full;
 - (iii) China Resources Cement (Nanning) Limited (華潤水泥(平南)有限公司) has legally obtained the building ownership of the property and has right to occupy, use, transfer, lease and mortgage of the building ownership of the property;
 - (iv) Guangxi Pingnan China Resources Yufeng Cement Company Limited (廣西平南華潤魚峰水泥有限公司) has been renamed as China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司), a wholly owned subsidiary of the Company; and
 - (v) The land use rights and building ownership of the property is not subject to any mortgage.
- (9) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes (Part)
Building Ownership Certificate	Yes
Approval Document	Yes (Part)
Land Transfer Agreement	Yes (Part)
Planning Permit for Construction Work	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A6. An industrial site at Feng Huang Shan, Qintang Village, Eastern Plot of Binyang Town, Binyang County, Nanning City, Guangxi ZAR, the PRC	The property comprises 5 plots of land with a total site area of approximately 698,310.85 sq.m. (7,516,618 sq.ft.). The land use rights of the property have been granted for a term of 50 years due to expiry on April 15, 2053 for industrial use.	The property is currently a vacant land for mine use.	RMB34,400,000 (91.8% interests attributable to the Group: RMB31,579,200)

Notes:

- (1) According to 5 Certificates for the Use of State-owned Land all issued by the Binyang County Land Resources Administration Bureau (賓陽縣國土資源局), the land use right of the property comprising a total site area of approximately 698,310.85 sq.m. has been granted to Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司), a 91.8% owned subsidiary of the Company, with details as follows:

Certificate No.	Location	Use of Land	Date of Expiry	Site area (sq.m.)
(2003)534	Feng Huang Shan, Binyang Town, Binyang County	Industrial	April 15, 2053	610.73
(2003)535	Feng Huang Shan, Binyang Town, Binyang County	Industrial	April 15, 2053	712.01
(2003)536	Feng Huang Shan, Binyang Town, Binyang County	Industrial	April 15, 2053	2,026.66
(2003)537	Feng Huang Shan, Binyang Town, Binyang County	Industrial	April 15, 2053	683,551.71
(2003)538	Feng Huang Shan, Binyang Town, Binyang County	Industrial	April 15, 2053	11,409.74
Total:				<u>698,310.85</u>

- (2) According to Grant Contract for the use of State-owned Land No. (2003) 285, the land use right of the property comprising a total site area of 698,849.75 sq.m. has been granted to Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) for a term of 50 years from the date of delivery of possession of the property with a land premium of RMB11,251,300.
- (3) According to Business License No. 003430 dated March 20, 2003, Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司), was established as a Sino-foreign equity joint venture enterprise with a registered capital of RMB60,000,000 and a valid operation period from December 24, 2001 to December 24, 2051.
- (4) According to the PRC legal opinion:
- (i) Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) has legally obtained the land use rights of the property;

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- (ii) Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property; and
- (iii) The land use rights of the property is not subject to any mortgage.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:
- | | |
|--|-----|
| Certificate for the Use of State-owned Land | Yes |
| Grant Contract for the Use of State-owned Land | Yes |
| Business License | Yes |

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A7. A concrete plant at east of Jilin Road, north of Aomen Road, Beihai City, Guangxi ZAR, the PRC	The property comprises the land and buildings of a concrete plant erected upon a plot of land with a site area of approximately 17,375.10 sq.m. (187,026 sq.ft.) completed in 2007. The property has a total gross floor area of approximately 2,160.33 sq.m. (23,254 sq.ft.). The land use rights of the property have been granted for a term due to expire on May 24, 2044 for industrial use.	The property is currently occupied by the Group as concrete production purposes.	RMB5,100,000 (100% interest attributable to the Group: RMB5,100,000)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2007) 801969 issued by Beihai Land Resources Bureau (北海市國土資源局), the land use right of the property comprising a site area of 17,375.10 sq.m. has been granted to China Resources Concrete (Beihai) Limited (華潤混凝土(北海)有限公司), a wholly-owned subsidiary of the Company, for a term due to expire on May 24, 2044 for industrial use.
- (2) According to 2 Building Ownership Certificates No. 00109430 and 00109431 all issued by Beihai City Real Estate Administration Bureau (北海市房屋管理局) on May 22, 2008, the property comprising a total gross floor area of 2,160.33 sq.m. has been vested in China Resources Concrete (Beihai) Limited (華潤混凝土(北海)有限公司), a wholly-owned subsidiary of the Company.
- (3) According to Business License No. 440500400000603 dated June 17, 2009, China Resources Concrete (Beihai) Limited (華潤混凝土(北海)有限公司) was established with a registered capital of HK\$20,000,000 and a valid operation period from November 30, 2005 to November 29, 2025.
- (4) According to the PRC legal opinion:
 - (i) China Resources Concrete (Beihai) Limited (華潤混凝土(北海)有限公司) has legally obtained the land use rights and building ownership of the property;
 - (ii) China Resources Concrete (Beihai) Limited (華潤混凝土(北海)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights and building ownership of the property; and
 - (iii) The land use rights and building ownership of the property is not subject to any mortgage.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A8. A concrete plant at No. 58-8 Youyi Road, Jiangnan District, Nanning City, Guangxi ZAR, the PRC	The property comprises the land and buildings of a concrete plant erected upon a plot of land with a site area of approximately 16,667.47 sq.m. (179,409 sq.ft.) completed in 2007. The property has a total gross floor area of approximately 2,080.92 sq.m. (22,399 sq.ft.) without any title certificate (see Note (2) below). The land use rights of the property with a site area of 16,667.47 sq.m. have been granted for a term of 50 years due to expire on April 1, 2058 for industrial uses.	The property is currently owner-occupied for concrete production purpose.	RMB6,400,000 (for a plot of land with a total site area of approximately 16,667.47 sq.m. only) (100% interests attributable to the Group: RMB6,400,000) (see Note (2) below)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2008) 505349 issued by Nanning Land Resources Bureau (南寧市國土資源局), the land use right of the property comprising a site area of approximately 16,667.47 sq.m. has been granted to China Resources Concrete (Guangxi) Limited (華潤混凝土(廣西)有限公司), a wholly-owned subsidiary of the Company, for a term due to expire on April 1, 2058 for industrial use.
- (2) In the course of our valuation, we have ascribed no commercial value to building portion of the property as Building Ownership Certificate has not been obtained. Had a valid Building Ownership Certificate been issued to the said portion of the property, the market value of the said portion of the property as at June 30, 2009 would be RMB1,500,000 (100% interest attributable to the Group: RMB1,500,000).
- (3) According to Business License No. 450100400000629 dated May 8, 2009, China Resources Concrete (Guangxi) Limited (華潤混凝土(廣西)有限公司) was established with a registered capital of HK\$34,000,000 and a valid operation period from August 16, 2006 to August 16, 2026.
- (4) According to the PRC legal opinion:
 - (i) China Resources Concrete (Guangxi) Limited (華潤混凝土(廣西)有限公司) has legally obtained the land use rights of the property;
 - (ii) China Resources Concrete (Guangxi) Limited (華潤混凝土(廣西)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property;
 - (iii) China Resources Concrete (Guangxi) Limited (華潤混凝土(廣西)有限公司) has no legal obstacles to obtain the Building Ownership Certificate if the construction project had been completed in accordance with Planning Permit for Construction Use of Land and Planning Permit for Construction Works; and
 - (iv) The land use rights of the property is not subject to any mortgage.

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- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	No
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A9. 9 residential, buildings at Luohe Village, Jiangbin Road, Pingnan County, Guigang City, Guangxi ZAR, the PRC	The property comprises 15 block of residential buildings erected upon 2 plots of land with a total site area of 44,457.84 sq.m. (478,544 sq.ft.) completed in 2006. Among them, a plot of land with a site area of approximately 16,907.70 sq.m. (181,994 sq.ft.) has been obtained valid title certificate (see Note (1) below). As advised, the property also comprises another plot of land with a site area of approximately 27,550.14 sq.m. (296,550 sq.ft.) without any title certificates (see Note (2) below). The property comprises 8 block of residential buildings with a total gross floor area of approximately 18,819.46 sq.m. (202,573 sq.ft.) with title certificate. As advised, the property also comprises 7 block of residential buildings with total gross floor area of approximately 14,319.00 sq.m. (154,130 sq.ft.) without any title certificates (see Note (2) below). The land use rights of the property with a total site area of 16,907.70 sq.m. have been granted for a term due to expire on December 14, 2074 for residential use.	The property is currently owner-occupied as dormitory.	RMB18,800,000 (for a plot of land with a total site area of approximately 16,907.70 sq.m. and a total gross floor area of 18,819.46 sq.m. only) (100% interests attributable to the Group: RMB18,800,000) (see Note (2) below)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2008) 260602003-1 issued by Pingnan Land Resources Bureau (平南縣國土資源局), the land use right of the property comprising a site area of 16,907.70 sq.m. has been granted to China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司), a wholly-owned subsidiary of the Company, for a term due to expire on December 14, 2074 for residential use.
- (2) In the course of our valuation, we have ascribed no commercial value to portion of the property of which the Certificate for the Use of State-owned Land of 27,550.14 sq.m. and Building Ownership Certificate of 14,319.00 sq.m. have not been obtained. Had a valid Certificate for the Use of State-owned Land and Building Ownership Certificate been issued to the said portion of the property, all land premium and related fees for the grant of the Certificates been fully settled, the market value of the said portion of the property as at June 30, 2009 would be RMB17,400,000 (100% interest attributable to the Group: RMB17,400,000).

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- (3) According to 8 Building Ownership Certificates all issued by County People's Government (平南縣人民政府), the property comprising a total gross floor area of 18,819.46 sq.m. has been vested in China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司), a wholly-owned subsidiary of the Company.
- (4) According to Business License No. 450000400003524 dated March 13, 2009, China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司), was established with a registered capital of RMB1,080,780,000 and a valid operation period from November 4, 2003 to November 4, 2051.
- (5) According to the PRC legal opinion:
- (i) China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) has legally obtained the land use rights of the property with a total site area of 16,907.70 sq.m. China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property;
 - (ii) China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) has no legal obstacles to obtain the Certificate for the Use of State-owned Land of 4 plots of land with a total site area of approximately 27,550.14 sq.m. if the Grant Contract for the Use of State-owned Land has been signed between China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) and the Land Administration Bureau and all land premium has been settled in full; and
 - (iii) China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) has legally obtained the building ownership of the property, comprising a total gross floor area of 18,819.46 sq.m. China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) has right to occupy, use, transfer, lease and mortgage of the building ownership of the property;
 - (iv) China Resources Cement (Pingnan) Limited (華潤水泥(平南)有限公司) has no legal obstacles to obtain the Building Ownership Certificate with a total gross floor area of approximately 14,319.00 sq.m. if the Certificate for the Use of State-owned Land has been obtained and the construction project had been completed in accordance with Planning Permit for Construction Use of Land and Planning Permit for Construction Works; and
 - (v) The land use rights of the property is not subject to any mortgage.
- (6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes (Part)
Building Ownership Certificate	Yes (Part)
Planning Permit for Construction Use of Land	Yes
Business License	Yes

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PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A10. A cement plant at Shaaowan, Aotau, Dahao District, Shantou City, Guangdong Province, the PRC	The property comprises the land and buildings of a cement plant building erected upon a plot of land with a site area of approximately 36,228.00 sq.m. (389,958 sq.ft.) completed in 1999. The property has a total gross floor area of approximately 7,491.81 sq.m. (80,642 sq.ft.). The land use rights of the property have been granted for a term of 50 years from September 24, 1994 to September 23, 2044 for industrial use.	The property is currently occupied by the Group as cement production purposes.	RMB26,200,000 (100% interests attributable to the Group: RMB26,200,000)

Notes:

(1) According to Certificate for the Use of State-owned Land No. (2001) 60100004 issued by Shantou City Planning and Land Resources Bureau (汕頭市規劃與國土資源局), the land use right of the property comprising a site area of 36,228.00 sq.m. has been granted to Shantou Cement Limited (汕頭水泥有限公司), a wholly-owned subsidiary of the Company, for a term of 50 years from September 24, 1994 to September 23, 2044 for industrial use.

(2) According to 10 Building Ownership Certificates issued by Guangdong Provincial People's Government (廣東省人民政府), the property comprising a total gross floor area of 17,367.93 sq.m. has been vested in Shantou Cement Limited (汕頭水泥有限公司), a wholly-owned subsidiary of the Company.

According to the information provided to us, we note that the buildings of 4 Building Ownership Certificates has been abandoned. As per the instruction by the Group, we have valued the remaining 6 Building Ownership Certificates with a total gross floor area of 7,491.81 sq.m.

(3) According to Business License No. 440500400005491 dated June 15, 2009, Shantou Cement Limited (汕頭水泥有限公司) was established with a registered capital of RMB210,000,000 and a valid operation period from March 31, 1994 to March 30, 2044.

(4) According to the PRC legal opinion:

- (i) Shantou Cement Limited (汕頭水泥有限公司) has legally obtained the land use rights and building ownership of the property;
- (ii) Shantou Cement Limited (汕頭水泥有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights and building ownership of the property; and
- (iii) The land use rights and building ownership of the property is not subject to any mortgage.

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- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A11. A cement plant at Fulusha Management District, Shatian Town, Dongguan City, Guangdong Province, the PRC	The property comprises the land and buildings of a cement plant erected upon 2 plots of contiguous land with a total site area of approximately 173,466.00 sq.m. (1,867,188 sq.ft.) completed in 1997. The property has a total gross floor area of approximately 38,343.10 sq.m. (412,725 sq.ft.) with title certificate. As advised, the property also has a gross floor area of approximately 10,695.10 sq.m. (115,122 sq.ft.) without any title certificates (see Note (2) below). The land use rights of the property have been granted for terms of 50 years due to expire on August 25, 2046 and December 2043 for industrial and ancillary facilities uses.	The property is currently owner-occupied for cement production purpose.	RMB147,800,000 (100% interest attributable to the Group: RMB147,800,000) (see Note (2) below)

Notes:

- (1) According to 2 Certificates for the Use of State-owned Land, the land use rights of the property comprising a total site area of 173,466.00 sq.m. has been granted to Dongguan China Resources Cement Manufactory Co., Ltd. (東莞華潤水泥廠有限公司), a wholly-owned subsidiary of the Company, the details are summarized as follows:

Certificate No.	Location	Use of Land	Date of Expiry	Site Area (sq.m.)
(1997) 81	Fulusha Management District, Shatian Town	Industrial and ancillary facilities	August 25, 2046	6,962.00
(1994) 218	Fulusha Management District, Shatian Town	Industrial	December 2043	166,504.00
Total:				173,466.00

- (2) In the course of our valuation, we have ascribed no commercial value to portion of the property of which the Building Ownership Certificate of 10,695.10 sq.m. have not been obtained. Had a valid Building Ownership Certificate been issued to the property, the market value of the property as at June 30, 2009 would be RMB10,100,000 (100% interest attributable to the Group: RMB10,100,000).
- (3) According to 31 Building Ownership Certificates, the property comprising a total gross floor area of 38,343.10 sq.m. has been vested in Dongguan Huarun Cement Manufactory Co., Ltd. (東莞華潤水泥廠有限公司), a wholly-owned subsidiary of the Company.

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- (4) According to Business License No. 002781 dated February 20, 2005, Dongguan Huarun Cement Manufactory Co., Ltd. (東莞華潤水泥廠有限公司), was established with a registered capital of HK\$199,000,000 and a valid operation period from May 23, 1994 to May 22, 2024.
- (5) According to the PRC legal opinion:
- (i) Dongguan Huarun Cement Manufactory Co., Ltd. (東莞華潤水泥廠有限公司) has legally obtained the land use rights of the property;
 - (ii) Dongguan Huarun Cement Manufactory Co., Ltd. (東莞華潤水泥廠有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property;
 - (iii) Dongguan Huarun Cement Manufactory Co., Ltd. (東莞華潤水泥廠有限公司) has legally obtained the building ownership of the property, comprising a total gross floor area of 38,343.10 sq.m.;
 - (iv) Dongguan Huarun Cement Manufactory Co., Ltd. (東莞華潤水泥廠有限公司) has no legal obstacles to obtain the Building Ownership Certificate with a total gross floor area of approximately 10,695.10 sq.m. if the construction project had been completed in accordance with Planning Permit for Construction Use of Land and Planning Permit for Construction Works; and
 - (v) The property is subject to mortgage.
- (6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes (Part)
Red-line Drawing (site plan)	Yes
Mortgage Agreement	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A12. A cement plant at east of Suixi Railway Station, Suixi County, Zhanjiang City, Guangdong Province, the PRC	The property comprises the land and buildings of a cement plant erected on 5 plots of land with a total site area of approximately 94,266.66 sq.m. (1,014,686 sq.ft.) completed between 1980 and 1995. The property has a total gross floor area of approximately 22,013.28 sq.m. (236,951 sq.ft.). The land use rights of the property have been granted for a term due to expire on September 6, 2055 for industrial use.	The property is currently occupied by the Group as cement production plant.	RMB21,900,000 (100% interests attributable to the Group: RMB21,900,000)

Notes:

- (1) According to 5 Certificates for the Use of State-owned Land, the land use rights of the property comprising a total site area of 94,266.66 sq.m., have been granted to Zhanjiang China Resources Hongshuihe Cement Co., Ltd. (湛江華潤紅水河水泥有限公司), a wholly owned subsidiary of the Company for a term due to expire on September 6, 2055 for industrial use. The details are as follows:-

Certificate No.	Location	Use of Land	Date of Expiry	Site Area (sq.m.)
(2005) 926	East of Railway station, Suixi Country	Industrial	September 6, 2055	1,537.27
(2005) 929	East of Railway station, Suixi Country	Industrial	September 6, 2055	3,848.73
(2005) 927	East of Railway station, Suixi Country	Industrial	September 6, 2055	1,116.81
(2005) 928	East of Railway station, Suixi Country	Industrial	September 6, 2055	5,006.10
(2005) 930	East of Railway station, Suixi Country	Industrial	September 6, 2055	82,757.75
Total:				<u>94,266.66</u>

- (2) According to 23 Real Estate Title Certificates all issued by Guangdong Provincial People's Government (廣東省人民政府), the property comprising a total gross floor area of 22,013.28 sq.m. has been vested in Zhanjiang China Resources Hongshuihe Cement Co., Ltd. (湛江華潤紅水河水泥有限公司) for industrial use.

- (3) According to Business License No. 440800400002326 dated May 19, 2008, Zhanjiang China Resources Hongshuihe Cement Co., Ltd. (湛江華潤紅水河水泥有限公司) was established with a registered capital of HK\$22,000,000 and a valid operation period from March 3, 2003 to February 27, 2013.

As advised, the profit sharing is in accordance with the ratio of capital contribution in registered capital.

- (4) According to the PRC legal opinion:

- Zhanjiang China Resources Hongshuihe Cement Co., Ltd. (湛江華潤紅水河水泥有限公司) has legally obtained the land use rights and building ownership of the property;
- Zhanjiang China Resources Hongshuihe Cement Co., Ltd. (湛江華潤紅水河水泥有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights and building ownership of the property; and

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(iii) The land use rights and building ownership of the property is not subject to any mortgage.

- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of Stated-owned Land	Yes
Real Estate Title Certificate	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A13. A plot of land at Makeng, Shenwan Town, Zhongshan City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of approximately 3,277.09 sq.m. (35,275 sq.ft.). The land use rights of the property have been granted for a term of 50 years due to be expire on July 24, 2048 for industrial use.	The property is currently owner-occupied as a cement interchange station.	RMB780,000 (91.8% interests attributable to the Group: RMB716,040)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2003) 320027 issued by Zhongshan Land Resources Administration Bureau (中山市國土資源局) on January 17, 2003, the land use right of the property with a site area of 3,277.09 sq.m. has been granted to Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司), a 91.8% owned subsidiary of the Company, for a term of 50 years due to expire on July 24, 2048 for industrial use.
- (2) According to Land Use Rights Transfer Contract entered into between Zhongshan Shenwan Real Estate Development Limited (中山市神灣鎮房地產開發公司) (Party A) and Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) (Party B) in February 2002, Party A has agreed to transfer the land use rights of the property to Party B. The details are summarized as follows:
 - (i) Location : Makeng, Shenwan Town, Zhongshan City
 - (ii) Site area : Approximately 5 Mu (3,333 sq.m.)
 - (iii) Land premium : Approximately RMB397,500
- (3) According to Business License No. 003430 dated March 20, 2003, Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) was established with a registered capital of RMB60,000,000 and a valid operation period from December 24, 2001 to December 24, 2051.
- (4) According to the PRC legal opinion:
 - (i) Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) has legally obtained the land use rights of the property;
 - (ii) Guangxi China Resources Hongshuihe Cement Co., Ltd. (廣西華潤紅水河水泥有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property; and
 - (iii) The land use rights of the property is not subject to any mortgage.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Land Use Rights Transfer Contract	Yes
Business License	Yes

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Property	Description and tenure	Particular of occupancy	Capital value in existing state as at June 30, 2009
A14. A plot of land at Shenxi Village, Shenwan Town, Zhongshan City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 3,011.80 sq.m. (32,419 sq.ft.). The land use rights of the property have been granted for a term due to expire on July 24, 2048 for industrial use.	The property is currently owner-occupied as a cement interchange station.	RMB710,000 (100% interest attributable to the Group: RMB710,000)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2008)320141 issued by Zhongshan Land Resources Administration Bureau (中山市國土資源局) on September 2, 2008, the land use right of the property with a site area of 3,011.80 sq.m. has been granted to China Resources Cement Investments Limited (華潤水泥投資有限公司), a wholly owned subsidiary of the Company, for a term due to expire on July 24, 2048 for industrial use.
- (2) According to Land Use Rights Transfer Contract entered into between Chen Yongsheng (陳永生) (Party A) and China Resources Cement Investments Limited (華潤水泥投資有限公司) (Party B), Party A has agreed to transfer the land use rights of the property to Party B. The details are summarized as follows:
 - (i) Location : Shenxi Village, Shenwan Town, Zhongshan
 - (ii) Site area : 3,011.86 sq.m.
 - (iii) Land premium : RMB2,250,000
 - (iv) Land use : Industrial
 - (v) Land use term : Due to expire on July 24, 2048
- (3) According to Business License No. 440301503299352 dated May 8, 2009, China Resources Cement Investments Limited (華潤水泥投資有限公司) was established with a registered capital of USD30,000,000 and a valid operation period from July 18, 2008 to July 18, 2024.
- (4) According to the PRC legal opinion:
 - (i) China Resources Cement Investments Limited (華潤水泥投資有限公司) has legally obtained the land use rights of the property;
 - (ii) China Resources Cement Investments Limited (華潤水泥投資有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property; and
 - (iii) The land use rights of the property is not subject to any mortgage.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are follows:

Certificate for the Use of State-owned Land	Yes
Land Use Rights Transfer Contract	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A15. A plot of land at Min'an Village, Tingjiang Town, Fuzhou Development Zone, Mawei District, Fuzhou City, Fujian Province, the PRC	The property comprises 2 plots of land with a total site area of approximately 41,720.00 sq.m. (449,074 sq.ft.) completed in 2005. The land use rights of the property have been granted for a term due to expire on April 29, 2053 and September 22, 2054 for port and stacking area uses respectively.	The property is currently owner-occupied as a cement interchange station.	RMB14,300,000 (100% interests attributable to the Group: RMB14,300,000)

Notes:

- (1) According to 2 Certificates for the Use of State-owned Land, the land use rights of the property comprising a total site area of 41,720.00 sq.m. (449,074 sq.ft.), have been granted to Fuzhou Development Zone Shun Li Construction Material Company Limited (福州開發區順利建材有限公司), a wholly-owned subsidiary of the Company for a term due to expire on April 29, 2053 and September 22, 2054 for port and stacking area uses respectively. The details are as follows:-

Certificate No.	Location	Use of Land	Date of Expiry	Site Area (sq.m.)
(2003) MD00049	Minan Village, Tingjiang Town, Fuzhou Development Zone	Port	April 29, 2053	21,990.00
(2004) MD000133	Minan Village, Tingjiang Town, Mawei	Stacking area	September 22, 2054	19,730.00
Total:				<u>41,720.00</u>

- (2) According to Business License No. 350100400007171 dated September 17, 2008, China Resources Cement (Fuzhou) Limited (華潤水泥(福州)有限公司) was established with a registered capital of RMB14,000,000 and a valid operation period from October 24, 2001 to December 23, 2017.

- (3) According to the PRC legal opinion:

- (i) Fuzhou Development Zone Shun Li Construction Material Company Limited (福州開發區順利建材有限公司) has legally obtained the land use rights of the property;
- (ii) Fuzhou Development Zone Shun Li Construction Material Company Limited (福州開發區順利建材有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property;
- (iii) Fuzhou Development Zone Shun Li Construction Material Company Limited (福州開發區順利建材有限公司) has renamed to China Resources Cement (Fuzhou) Limited (華潤水泥(福州)有限公司); and
- (iv) The land use rights of the property is not subject to any mortgage.

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- (4) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A16. A concrete plant at Xincheng North No. 10 Area, Dinghu District, Zhaoqing City, Guangdong Province, the PRC	The property comprises the land and buildings of a concrete plant erected upon a plot of land with site area of approximately 2,745.12 sq.m. (29,548 sq.ft.) completed in 1995. The property has a total gross floor area of approximately 2,759.85 sq.m. (29,707 sq.ft.). The land use rights of the property have been granted for a term due to expire on November 24, 2043 for industrial use.	The property is currently owner-occupied as concrete plant.	RMB2,540,000 (100% interests attributable to the Group: RMB2,540,000)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (1995) 80459, the land use right of the property comprising a site area of 2,745.12 sq.m. has been granted to China Resources Concrete (Zhaoqing) Limited (華潤混凝土(肇慶)有限公司), a wholly-owned subsidiary of the Company, for a term due to expire on November 24, 2043 for industrial use.
- (2) According to 3 Building Ownership Certificates issued by Guangdong Provincial People's Government (廣東省人民政府), the property comprising a total gross floor area of 2,759.85 sq.m. has been vested in China Resources Concrete (Zhaoqing) Limited (華潤混凝土(肇慶)有限公司), a wholly-owned subsidiary of the Company.
- (3) According to Business License No. 441200400005544 dated June 4, 2009, China Resources Concrete (Zhaoqing) Limited (華潤混凝土(肇慶)有限公司) was established with a registered capital of HK\$20,000,000 and a valid operation period from February 3, 2006 to February 1, 2028.
- (4) According to the PRC legal opinion:
 - (i) China Resources Concrete (Zhaoqing) Limited (華潤混凝土(肇慶)有限公司) has legally obtained the land use rights of the property;
 - (ii) China Resources Concrete (Zhaoqing) Limited (華潤混凝土(肇慶)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights and building ownership of the property;
 - (iii) China Resources Concrete (Zhaoqing) Limited (華潤混凝土(肇慶)有限公司) has obtained the building ownership of the property; and
 - (iv) The land use rights and building ownership of the property is not subject to any mortgage.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A17. A plot of land at Hexi Industry Zone, Fangcheng District, Fangchenggang City, Guangxi ZAR, the PRC	The property comprises a plot of land with a site area of approximately 19,665.508 sq.m. (211,680 sq.ft.). The land use right of the property would be granted for a term of 50 years for industrial uses.	The property is currently vacant.	No commercial value (100% interests attributable to the Group: No commercial value) (see Note (1) below)

Notes:

- (1) In the course of our valuation, we have ascribed no commercial value to the property as the Certificate for the Use of State-owned Land has not been obtained. Had a valid Certificate for the Use of State-owned Land been issued to the said portion of the property, all land premium and related fees for the grant of the Certificates been fully settled, the market value of the said portion of the property as at June 30, 2009 would be RMB2,900,000 (100% interest attributable to the Group: RMB2,900,000).
- (2) According to Planning Permit for Construction Use of Land No. (2007)313, the planning of the site of the property was in compliance with the requirement of urban planning and was permitted to be developed with a total site area of 19,665.51 sq.m. The land user have been changed to China Resources Concrete (Fangchenggang) Limited (華潤混凝土(防城港)有限公司).
- (3) According to Business License No. 450600400000576, China Resources Concrete (Fangchenggang) Limited (華潤混凝土(防城港)有限公司) was established with a registered capital of HK\$12,500,000 and a valid operation period from August 29, 2006 to August 28, 2026.
- (4) According to the PRC legal opinion:
 - (i) China Resources Concrete (Fangchenggang) Limited (華潤混凝土(防城港)有限公司) has no legal obstacles to obtain the Certificate for the Use of State-owned Land if the Grant Contract for the Use of State-owned Land has been signed between China Resources Concrete (Fangchenggang) Limited (華潤混凝土(防城港)有限公司) and the Land Administration Bureau and all land premium has been settled in full.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	No
Building Ownership Certificate	No
Planning Permit for Construction Use of Land	Yes
Business License	Yes

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A18. A concrete plant at Area 1, Huangma Industry Park, Qinbei District, Qinzhou, Guangxi ZAR, the PRC	The property comprises the land and buildings of a concrete plant erected upon 2 plots of land with a total site area of approximately 1,304 sq.m. (14,036 sq.ft.) without any title certificates (see Note (1) below). The property has a total gross floor area of approximately 2,276.00 sq.m. (24,499 sq.ft.) without any title certificates (see Note (1) below). The land use rights of the property would be granted for a term of 50 years for industrial use.	The property is currently owner-occupied as concrete plant.	No commercial value (100% interests attributable to the Group: No commercial value) (see Note (1) below)

Notes:

- (1) In the course of our valuation, we have ascribed no commercial value to the property as the Certificate for the Use of State-owned Land and Building Ownership Certificate has not been obtained. Had a valid Certificate for the Use of State-owned Land and Building Ownership Certificate been issued to the said portion of the property, all land premium and related fees for the grant of the Certificates been fully settled, the market value of the said portion of the property as at June 30, 2009 would be RMB2,120,000 (100% interest attributable to the Group: RMB2,120,000).
- (2) According to Planning Permit for Construction Use of Land Nos. 2007-048 and 2007-049 issued by Qin Beiqu Qinzhou City Construction Bureau (欽州市欽北區建設局) on October 26, 2007, the planning of the site of the property was in compliance with the requirement of urban planning and was permitted to be developed with a total site area of 1,304.00 sq.m. The land user have been changed to China Resources Concrete (Qinzhou) Limited (華潤混凝土(欽州)有限公司).
- (3) According to Planning Permit for Construction Works Nos. 2007-048 and 2007-049 issued by Qin Beiqu Qinzhou City Construction Bureau (欽州市欽北區建設局) on October 26, 2007, the construction works of the property was in compliance with the requirement of urban planning and was permitted to be developed with a total gross floor area of 2,276.00 sq.m.
- (4) According to Business License No. 450700400000027 dated May 26, 2009, China Resources Concrete (Qinzhou) Company Limited (華潤混凝土(欽州)有限公司) was established with a registered capital of HK\$20,000,000 and a valid operation period from April 24, 2007 to April 24, 2027.
- (5) According to the PRC legal opinion:
 - (i) China Resources Concrete (Qinzhou) Company Limited (華潤混凝土(欽州)有限公司) has no legal obstacles to obtain the Certificate for the Use of State-owned Land if the Grant Contract for the Use of State-owned Land has been signed between China Resources Concrete (Qinzhou) Company Limited (華潤混凝土(欽州)有限公司) and the Land Administration Bureau and all land premium has been settled in full; and

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- (ii) China Resources Concrete (Qinzhou) Company Limited (華潤混凝土(欽州)有限公司) has no legal obstacles to obtain the Building Ownership Certificate if the Certificate for the Use of State-owned Land has been obtained and the construction project had been completed in accordance with Planning Permit for Construction Use of Land and Planning Permit for Construction Works.
- (6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:
- | | |
|--|-----|
| Certificate for the Use of State-owned Land | No |
| Building Ownership Certificate | No |
| Planning Permit for Construction Use of Land | Yes |
| Planning Permit for Construction Works | Yes |
| Business License | Yes |

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Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A19. A plot of land at Xinqiao Town Industrial Park, Gaoyao City, Zhaoqing, Guangdong Province, the PRC	The property comprises a plot of land with a site area of approximately 18,907 sq.m. (203,515 sq.ft.). The land use rights of the property have been granted for a term due to expire on July 29, 2052 for industrial use.	The property is currently vacant	RMB3,700,000 (100% interest attributable to the Group: RMB3,700,000)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2009) 100055, the land use rights of the property comprising a site area of 18,907 sq.m. have been granted to China Resources Concrete (Gaoyao) Limited (華潤混凝土(高要)有限公司), a wholly-owned subsidiary of the Company for a term due to expire on July 29, 2052 for industrial use.
- (2) According to Business License No. 441200400010583 dated March 13, 2009, China Resources Concrete (Gaoyao) Limited (華潤混凝土(高要)有限公司) was established with a registered capital of HK\$20,000,000 and has a valid operation period from March 13, 2009 to March 12, 2030.
- (3) According to the PRC legal opinion:
 - (i) China Resources Concrete (Gaoyao) Limited (華潤混凝土(高要)有限公司) has legally obtained the land use rights of the property;
 - (ii) China Resources Concrete (Gaoyao) Limited (華潤混凝土(高要)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property; and
 - (iii) The land use rights of the property is not subject to any mortgage.
- (4) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Business License	Yes

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PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A20. A plot of land at Dumiao Village, Changgang Town, Fengkai County, Guangdong Province, the PRC	The property comprises a plot of land with a total site area of 604,000 sq.m. (6,501,456 sq.ft.). Among them, a plot of land with a site area of approximately 266,666.67 sq.m. (2,870,400 sq.ft.) has been obtained valid title certificate (see Note (1) below). As advised, the property also comprises another plot of land with a site area of approximately 337,333.33 sq.m. (3,631,056 sq.ft.) without any title certificates (see Note (2) below). The land use rights of the property with a total site area of 266,666.67 sq.m. have been granted for a term due to expire on February 23, 2059 for industrial use.	The property is currently owner-occupied as a cement production plant.	RMB37,000,000 (100% interests attributable to the Group: RMB37,000,000) (see Note (2) below)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2009) 0023 issued by People's Government of Fengkai County (封開縣人民政府) dated February 24, 2009, the land use rights of the Property with a total site area of approximately 266,666.67 sq.m. had been granted to China Resources Cement (Fengkai) Limited (華潤水泥(封開)有限公司), a wholly owned subsidiary of the Company, for a term due to expire on February 23, 2059 for industrial use.
- (2) In the course of our valuation, we have ascribed no commercial value to portion of the property which the Certificate for the Use of State-owned Land of 337,333.33 sq.m. has not been obtained. Had a valid Certificate for the Use of State-owned Land been issued to the said portion of the property, all the land premium and related fees for the grant of the Certificates been fully settled, the market value of the said portion of the property as at June 30, 2009 would be RMB47,000,000. (100% interest attributable to the Group: RMB47,000,000).
- (3) According to Planning Permits for Construction Use of Land No. (2008)088, the planning of the site of the property was in compliance with the requirement of urban planning and was permitted to be developed with a total site area of 604,000 sq.m. The land user have been changed to China Resources Cement (Fengkai) Limited (華潤水泥(封開)有限公司).
- (4) According to Business Licence No. 441200400001017 dated August 14, 2007, China Resources Cement (Fengkai) Limited (華潤水泥(封開)有限公司) was established with a registered capital of US\$34,443,560 for a valid operation period from August 14, 2007 to August 14, 2009.
- (5) According to the PRC legal opinion:
 - (i) China Resources Cement (Fengkai) Limited (華潤水泥(封開)有限公司) has legally obtained the land use right of the property with a total site area of 266,666.67 sq.m. China Resources Cement (Fengkai) Limited (華潤水泥(封開)有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property;

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- (ii) China Resources Cement (Fengkai) Limited (華潤水泥(封開)有限公司) has no legal obstacles to obtain the Certificate for the Use of State-owned Land with a total site area of 337,333.33 sq.m. if the Grant Contract for the Use of State-owned Land has been signed and all land premium has been settle in full; and
- (iii) The land use rights of the property is not subject to any mortgage.
- (6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes (Part)
Planning Permits for Construction Use of Land	Yes
Business License	Yes

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PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A21. A plot of land at No.268 Yongandong Road, Litang Town, Binyang County, Nanning City, Guangxi ZAR, the PRC	The property comprises a plot of land with a site area of approximately 289,974.837 sq.m. (3,121,289 sq.ft.). The land use rights of the property have been allocated for residential use. (see Note (2) below).	The property is owner-occupied for residential use.	No commercial value (72.8% interests attributable to the Group: No commercial value) (see Note (2) below)

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2003)747 issued by Binyang County Land Administration Bureau (賓陽縣國土資源局), the land use right of the property comprising a site area of 289,974.837 sq.m. has been allocated to Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河水泥股份有限公司), a 72.8% owned subsidiary of the Company, for residential use.
- (2) We noted that the land used type are allocated, as per the instruction, our valuation is based on the assumption that the total site area of the property is a granted land, we assume that all land premium and related fees incurred have been fully settled, the market value of the property as at June 30, 2009 would be RMB43,500,000 (72.8% interest attributable to the Group: RMB31,668,000).
- (3) According to Business License No.450000000001591 dated December 18, 2008, Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河水泥股份有限公司) was established with a registered capital of RMB305,256,700.
- (4) According to the PRC legal opinion:
 - (i) Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河水泥股份有限公司) has right to occupy and use of the self-owned land use rights of the property with a total gross floor area of 119,600.67 sq.m. and has right to transfer, lease or mortgage of the self-owned land use rights of the property upon the approval from Land Management Department and all land premium have been settled in full; and
 - (ii) Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河水泥股份有限公司) has right to occupy and use of the managed land with a total gross floor area of 112,773.92 sq.m. and has the right to dispose the managed land upon the approval from Nanning Municipal People's Government State-owned Assets Supervision and Administration Commission.
- (5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	No
Business License	Yes

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PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A22. Unit 201 and unit 202 of Block 1 and unit 203 of Block 2, Building 2, Zhengdi Garden, Beihu South Road, Nanning City, Guangxi ZAR, the PRC	The property comprises three residential units on level 3 of a 8-storey composite building completed in 1997. The property has a total gross floor area of approximately 502.09 sq.m. (5,404 sq.ft.). The land use rights of the property have been granted for an unspecified term and unspecified use.	The property is currently owner-occupied as dormitory.	RMB1,800,000 (72.8% interests attributable to the Group: RMB1,310,400)

Notes:

- (1) According to 3 Building Ownership Certificates, the property comprising a total gross floor area of 502.09 sq.m. has been vested in Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河水泥股份有限公司), a 72.8% owned subsidiary of the Company.
- (2) According to Business License No. 450000000001591 dated December 18, 2008, Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河水泥股份有限公司) was established with a registered capital of RMB305,256,700 and has a valid operation period from October 22, 1996.
- (3) According to the PRC legal opinion:
 - (i) Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河股份有限公司) has legally obtained the building ownership of the property;
 - (ii) Guangxi Hongshuihe Cement Joint Stock Company Limited (廣西紅水河股份有限公司) has right to occupy, use, transfer, lease and mortgage of the building ownership of the property; and
 - (iii) The building ownership of the property is not subject to any mortgage.
- (4) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Building Ownership Certificate	Yes
Business License	Yes

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PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A23. Unit 13A, Block B, Jinlong Building, Jinsha East Road, Longhu District, Shantou City, Guangdong Province, the PRC	The property comprises an office unit on level 13 of a 31-storey composite building completed in 1994. The property has a gross floor area of approximately 176.22 sq.m. (1,897 sq.ft.). The land use rights of the property have been granted for a term due to expire on December 23, 2041 for composite use.	The property is currently owner-occupied as office.	RMB510,000 (100% interest attributable to the Group: RMB510,000)

Notes:

- (1) According to Real Estate Title Certificate No. C1674140 issued by the Shantou City Planning and Land Resources Bureau (汕頭市規劃與國土資源局) on July 25, 2003, the property comprising a total gross floor area of 176.22 sq.m. has been vested in Shantou Cement Limited (汕頭水泥有限公司), a wholly owned subsidiary of the Company, for composite use.
- (2) According to Business License No. 440500400005491 dated March 20, 2009, Shantou Cement Limited (汕頭水泥有限公司) was established with a registered capital of RMB210,000,000 and a valid operation period from March 31, 1994 to March 30, 2044.
- (3) According to the PRC legal opinion:
 - (i) Shantou Cement Limited (汕頭水泥有限公司) has legally obtained the building ownership of the property;
 - (ii) Shantou Cement Limited (汕頭水泥有限公司) has right to occupy, use, transfer, lease and mortgage of the building ownership of the property; and
 - (iii) The building ownership of the property is not subject to any mortgage.
- (4) In accordance with the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Real Estate Title Certificate	Yes
Business License	Yes

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PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
A24. Unit 401, Block 22, Bibo Garden, Yanhe Road, Luohu District, Shenzhen City, Guangdong Province, the PRC	The property comprises a residential unit on level 4 of a 6-storey residential building completed in 1989. The property has an apportioned site area and gross floor area of approximately 121.69 sq.m. (1,310 sq.ft.) and 153.11 sq.m. (1,648 sq.ft.) respectively. The land use rights of the property have been granted for a term of 50 years from October 28, 1985 to October 27, 2035 for residential use.	The property is currently vacant.	RMB1,100,000 (100% interest attributable to the Group: RMB1,100,000)

Notes:

- (1) According to Real Estate Title Certificate No. 0014559 issued by the People's Government of Shenzhen (深圳市人民政府) on March 23, 1992, the property with gross floor area of 153.11 sq.m. was granted to Redland Concrete Limited (中港混凝土有限公司), a wholly owned subsidiary of Company, for a term of 50 years from October 28, 1985 to October 27, 2035 for residential use. The total transfer price was HK\$535,880.
- (2) According to the PRC legal opinion:
 - (i) Redland Concrete Limited (中港混凝土有限公司) has legally obtained the land use rights of the property;
 - (ii) Redland Concrete Limited (中港混凝土有限公司) has right to occupy, use, transfer, lease and mortgage of the land use rights of the property; and
 - (iii) The land use rights of the property is not subject to any mortgage.
- (3) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are follows:

Real Estate Title Certificate

Yes

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PROPERTY VALUATION

Group II — Property interests rented by the Group in the PRC

	Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B1.	A plot of land at the north coast of Xiaohu, west side of Xinshuizha, Fulusha Management District, Dongguan, Guangdong Province, the PRC	The property comprises a plot of land with a total site area of approximately 4,890.50 sq.m. (52,641 sq.ft.) which is used as a cement interchange station. The property is currently rented by the Group from January 1, 2009 to December 31, 2013 at an annual rental of RMB800,000. According to the PRC legal opinion, land use titles certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding.	No commercial value
B2.	A plot of land beside Chaolianshishan Water Gate, Jianghai District, Jiangmen City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 3,550.00 sq.m. (38,212 sq.ft.) which is used as a cement interchange station. The property is currently rented by the Group for a term of 15 years from January 1, 2004 to December 31, 2018 at a monthly rental of RMB18,000 subject to upward adjustment at a rate of 5% for every 2 years. According to the PRC legal opinion, land use titles certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value
B3.	A plot of land at the north side of Nanwu Road, Xiangqiao Village, Santang Town, Xinning District, Nanning City, Guangxi ZAR, the PRC	The property comprises a plot of land with a site area of 17.50 mu (11,667 sq.m.) which is planned for the use as a concrete batching plant. The property is currently rented by the Group from January 1, 2009 to January 1, 2010 at an annually rental of RMB6,000/mu. According to the PRC legal opinion, the lease of temporary land is pending for the land administrative department confirmation, the temporary tenancy agreement is legal, valid and binding.	No commercial value

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PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B4. A plot of land at Shibu Town, Xixiangtang District, Nanning City, Guangxi ZAR, the PRC	The property comprises a plot of land with a site area of approximately 13.60 mu (9,066.67 sq.m.) which is used as a concrete batching plant. The property is currently rented by the Group from January 1, 2009 to January 1, 2010 at an annually rental of RMB2,750/mu. According to the PRC legal opinion, the lease of temporary land is pending for the land administrative department confirmation, the temporary tenancy agreement is legal, valid and binding.	No commercial value
B5. A plot of land at Caohu Industry Park, Hanxishui Village, Chashan Town, Dongguan, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 9,052.61 sq.m. (97,442 sq.ft.) which is used as a concrete batching plant. The property is currently rented by the Group from July 1, 2008 to June 30, 2009 at a monthly rental of RMB7/sq.m. and July 1, 2009 to August 31, 2026 at a monthly rental of RMB7.14/sq.m. subject to upward adjustment at a rate of 8% for every 5 years. According to the PRC legal opinion, land use title certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding.	No commercial value
B6. A plot of land at Caohu Industry Park, Hanxishui Village, Chashan Town, Dongguan, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 13,016.38 sq.m. (140,108 sq.ft.) which is used as a concrete batching plant. The property is currently rented by the Group from July 1, 2008 to June 30, 2009 at a monthly rental of RMB6/sq.m. and July 1, 2009 to November 30, 2027 RMB6.18/sq.m. subject to upward adjustment at a rate of 8% for every 5 years. According to the PRC legal opinion, land use title certificate is vested to the respective lessor for the property, the title of the property is held by the Fuyuan Trade Company Limited, the lessor is authorized by Fuyuan Trade Company Limited to lease the property to the lessee and the tenancy agreement is legal, valid and binding.	No commercial value

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Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B7. A plot of land at Xiaohe Industrial Park, Xiaohe Village, Daojiao Town, Dongguan City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 12,889.00 sq.m. (138,737 sq.ft.) which is used as office, concrete batching and other ancillary purpose. The property is currently rented by the Group from July 1, 2009 to June 30, 2011 at a monthly rental of RMB21,266.85. According to the PRC legal opinion, the lease of temporary land is pending for the land administrative department confirmation, the temporary tenancy agreement is legal, valid and binding.	No commercial value
B8. A plot of land at Leijingwei, Liantang Village, Daze Town, Jiangmen City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 22 mu (14,667.00 sq.m.) which is used as a concrete batching plant. The property is currently rented by the Group from July 1, 2008 to June 30, 2010 at an annual rental of RMB10,000/mu. According to the PRC legal opinion, the effectiveness and validity of the temporary tenancy agreement is pending for land administration department confirmation.	No commercial value
B9. A plot of land at Tiemaoding, Nikeng Village, Xiantang Town, Dongyuan County, Heyuan City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 16,781.18 sq.m. (180,633 sq.ft.) which is used as a concrete batching plant. The property is currently rented by the Group from July 1, 2009 to June 30, 2010 at a monthly rental of RMB3.3/sq.m. According to the PRC legal opinion, the lease of temporary land is pending for the land administrative department confirmation, the temporary tenancy agreement is legal, valid and binding.	No commercial value
B10. A plot of land at Guangming Industry Park, Chancheng District, Foshan City, Guangdong Province, the PRC	The property comprises a plot of land with a total site area of approximately 7.934 mu (5,289 sq.m.) which is used as a concrete batching plant. The property is currently rented by the Group for a term of 2 years from July 1, 2008 to June 30, 2010. According to the PRC legal opinion, the lease of temporary land is confirmed by the land administrative department, the temporary tenancy agreement is legal, valid and binding.	No commercial value

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B11. A plot of land at Tan Zhou Industrial Zone 1st Road, Chencun Town, Shunde District, Foshan City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of approximately 12.57 mu (8,380 sq.m.) which is used as a concrete batching plant. The property is currently rented by the Group for a term of 2 years from July 1, 2009 to June 30, 2011 at a total rental of RMB179,751. According to the PRC legal opinion, the lease of temporary land is confirmed by the land administrative department, the temporary tenancy agreement is legal, valid and binding.	No commercial value
B12. A plot of land at No.1 of Hebin, Tangxia Town, Pengjiang District, Jiangmen City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 25 mu (16,667 sq.m.) which is used as a concrete batching plant. The property is currently rented by the Group for a term of 1 year from July 1, 2009 to June 30, 2010 at a total rental of RMB322,500. According to the PRC legal opinion, the land use title certificate is vested to the respective lessor for the property, the lessor is entitle to lease the property to the lessee and the tenancy agreement is legal, valid and binding.	No commercial value
B13. A plot of land at Biankeng Section, Langkou Village, Longhua Town, Baoan District, Shenzhen City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 20,000.00 sq.m. (215,280 sq.ft.) which is used as a concrete batching plant. A building will erect upon the land with a total gross floor areas of 1,000.00 sq.m. for office and quarters uses. The land portion is rented by the Group from July 1, 2009 to December 31, 2009 at a monthly rental of RMB80,000. Upon the building is completed, the building portion will rent by the Group at a monthly rental of RMB10,000. According to the PRC legal opinion, the lease of temporary land is pending for the land administrative department confirmation, the lease of temporary land is pending for the land administrative department confirmation, the temporary tenancy agreement is legal, valid and binding.	No commercial value

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PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B14. A plot land at Songmen, Minan Village, Tingjiang Town, Mawei District, Fuzhou City, Fujian Province, the PRC	The property comprises a plot of land with a site area of 7,663 sq.m. (82,485 sq.ft.) which is used as concrete batching plant. The property is currently rented by the Group for a term of 1.5 years from July 1, 2008 to December 31, 2009 at an annual rental of RMB590,000. According to the PRC legal opinion, land use title certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding.	No commercial value
B15. A plot of land at Dacheng Country, Pingnan County, Guigang City, Guangxi ZAR, the PRC	The property comprises a plot of land with a site area of 4,000 mu (2,666,668 sq.m.) which is used for mining use. The property is currently rented by the Group for a term of 18 months at a total rent of RMB4,000,000. According to the PRC legal opinion, the lease of temporary land was approved by the land administrative department, the temporary tenancy agreement is legal, valid and binding.	No commercial value
B16. A plot of land at Feiyao Team 1&2, Sanhe Village, Danzhu Town, Pingnan County, Guigang City, Guangxi ZAR, the PRC	The property comprises a plot of land with a site area of 50.9696 mu (33,979.75 sq.m.) which is used for storage use. The property is currently rented by the Group for a term of 2 years. According to the PRC legal opinion, the lease of temporary land was approved by the land administrative department, the temporary tenancy agreement is legal, valid and binding.	No commercial value
B17. A plot of land at Old Jitun, Xinji Village, Daling Countryside, Qintang District, Guigang City, Guangxi ZAR, the PRC	The property comprises a plot of land with site area of 18,000 sq.m. (193,752 sq.ft.) which is used for mining use. The property is currently occupied by the Group temporarily for a term of 2 years from October 9, 2006 to October 8, 2008 with the Approval No. (2006) 2 issued by Guigang Qintang District Forestry Bureau. According to the PRC legal opinion, the lease of temporary land is confirmed by government, the lessee has the right to occupy the land temporarily for 2 years. The lease of temporary land is expired, the application to renew the tenancy agreement is under processing.	No commercial value

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PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B18. No. 99 Datang 2 Road, Jiangkou Town, Fengkai County, Zhaoqing City, Guangdong Province, the PRC	The property comprises a building with a total gross area of 737.19 sq.m. (7,935 sq.ft.) which is used for office purpose. The property is currently rented by the Group from September 2007 to September 2009 at a monthly rental of RMB4,320 for the first three months and the remaining monthly rental of RMB4,385. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value
B19. No. 7 Minzu Road, Fuyang Town, Fuchuan County, Hezhou City, Guangxi ZAR, the PRC	The property comprises a building with a total gross area of 1,050.047 sq.m. (11,303 sq.ft.) which is used for office purpose. The property is currently rented by the Group for a term of 24 months from February 22, 2008 to February 24, 2010. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value
B20. 4 rooms on Level 1, 2 and 4, No. 104 Minquan Street, Tianyang Town, Tianyang County, Baise City, Guangxi ZAR, the PRC	The property comprises 4 rooms of a building which is used for office purpose. The property is currently rented by the Group from June 1, 2009 to June 1, 2010 without any rent. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value

APPENDIX V		PROPERTY VALUATION
Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B21. Room 1-3, Level 2, ICBC Shangsi Subbranch Building, Zhonghua Road, Siyang Town, Shangsi County, Fangchenggang City, Guangxi ZAR, the PRC	The property comprises 3 units of a building with a total gross area of 78.0 sq.m. (840 sq.ft.) which is used for office purpose. The property is currently rented by the Group from December 1, 2007 to August 31, 2009 at a monthly rental of RMB10/sq.m. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value
B22. Level 4, CCB Building, No. 28 Huanzhu Avenue, Hepu County, Beihai City, Guangxi ZAR, the PRC	The property has a total gross floor area of 164.37 sq.m. (1,769 sq.ft.) which is used as office purpose. The property is currently rented by the Group from April 1, 2008 to April 1, 2010 at no consideration. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee.	No commercial value
B23. Dorm of BOC, No. 28 Jiangbindong Road, Luchuan County, Yulin City, Guangxi ZAR, the PRC	The property comprises a unit which is used as office purpose. The property is currently rented by the Group from August 8, 2008 to August 7, 2009 at a monthly rental of RMB100. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value
B24. 2 buildings at Guijin Road, Guiping City, Guigang City, Guangxi ZAR, the PRC	The property has a total gross floor area of 1,510 sq.m. (16,254 sq.ft.) which is used as office purpose. The property is currently rented by the Group from March 2, 2009 to March 2, 2010 at a monthly rental of RMB12,854.85. According to the PRC legal opinion, the Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitle to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B25. 15 rooms on Level 2-3, No. 1 of Chengdong Road, Wuxuan Town, Wuxuan County, Laibin City, Guangxi ZAR, the PRC	The property comprises 15 rooms on level 2-3 which is used as office and dormitory purpose. The property is currently rented by the Group from June 1, 2009 to June 31, 2010. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value
B26. Room 601, 603 and 605, Merchants Building, China Merchants Zhangzhou Development Zone, Zhangzhou City, Fujian Province, the PRC	The property comprises 3 units on level 6 with a total gross floor area of 173.29 sq.m. (1.865 sq.ft.) which is used as office purpose. The property is currently rented by the Group from January 15, 2008 to January 14, 2010 at a monthly rental of RMB7,798. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has been registered.	No commercial value
B27. Room 2 and 3 of a residential house, Hexi Industrial Park, Fangchenggang District, Fangchenggang City, Guangxi ZAR, the PRC	The property comprises 2 units of a building with a total gross floor area of 300 sq.m. (3,229 sq.ft.) which is used as residential purpose. The property is currently rented by the Group for a term of 2 year from June 1, 2008 to May 31, 2010 at an annual rental of RMB20,000. According to the PRC legal opinion, the lessor has not obtained Building Ownership Certificate, the legal validity of the tenancy agreement is in the uncertainty.	No commercial value
B28. No. 302, Block 6, No. 39-5 Zhongshaubei Road, Guigang City, Guangxi ZAR, the PRC	The property which is used as dormitory purpose. The property is currently rented by the Group from May 1, 2009 to August 31, 2009 at a monthly rental of RMB1,200. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not effect its validity.	No commercial value

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B29. Unit 1, Block 10 Hongtaimingcheng, No. 246 Rongjun Road, Liuzhou, Guangxi ZAR, the PRC	The property comprises a unit of a building which is used as office purpose. The property is currently rented by the Group from December 17, 2008 to December 17, 2009 at a monthly rental of RMB1,300. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee. The tenancy agreement has not been registered; however, it would not affect its validity. Nevertheless, according to the PRC law, the rights to use of the property by the lessee are not certain due to the property is mortgaged property.	No commercial value
B30. A composite building, Songmen, Minan Village, Tingjiang Town, Mawei District, Fuzhou City, Fujian Province, the PRC	The property comprises a 4-storey composite building completed in 2008. The property has a total gross floor area of 1,500 sq.m. (16,146 sq.ft.) which is used as office purpose. The property is currently rented by the Group for a term of 15 years from January 1, 2008 to January 1, 2023 at a monthly rental of RMB13,500 subject to upward adjustment at a rate of 5% for every 4 years. According to the PRC legal opinion, the Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitle to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value
B31. Unit Nos. 301 – 308, Songmen, Minan Village, Tingjiang Town, Mawei District, Fuzhou City, Fujian Province, the PRC	The property comprises 8 units of a building with a total gross floor area of 220 sq.m. (2,368 sq. ft.) which is used as office purpose. The property is currently rented by the Group for a term of 10 years from May 1, 2008 to May 1, 2018. According to the PRC legal opinion, the property is subleased by the lessee to the new tenant and approved by the lessor. The lessor has not obtained Building Ownership Certificate, the legal validity of the tenancy agreement is uncertain.	No commercial value

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B32. Unit Nos. 1701, 1702 and 1706, Level 17, Huarun Building, No. 5001 Shennan East Road, Shenzhen, Guangdong Province, the PRC	The property comprises 3 units and a store room on level 17 of a 29-storey building completed in 2004. The property has a total gross floor area of 872 sq.m. (9,386 sq.ft.) which is used as office purpose. The property is currently rented by the Group from January 1, 2008 to December 31, 2009 at a monthly rental of RMB148,240. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective lessor for the property, the lessor is entitled to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has been registered.	No commercial value
B33. Unit Nos. 1609 and 1610, Qingxiu District Complex Building, No. 68 Dongge Road, Nanning City, Guangxi ZAR, the PRC	The property has a total gross floor area of 51.90 sq.m. (559 sq.ft.) which is used as office purpose. The property is currently rented by the Group from June 1, 2009 to June 1, 2010 at no consideration. According to the PRC legal opinion, Building Ownership Certificate is vested to the respective lessor for the property, the title of the property is held by the Qingxiu District Government, the lessor is authorized by Qingxiu District Government to lease the property to the lessee and the tenancy agreement is legal, valid and binding. The tenancy agreement has not been registered; however, it would not affect its validity.	No commercial value
B34. Unit E2-503, Phase 2 of Xihuyuan, Caiyuan Village, Xibei Town, Xinluo District, Longyan, Fujian Province, the PRC	The property comprises a unit of a building which is used as office purpose. The property is currently rented by the Group for a term of 1 year from January 1, 2009 to December 31, 2009 at a monthly rental of RMB1,500. According to the PRC legal opinion, the lessor has not obtained Building Ownership Certificate, the legal validity of the tenancy agreement is in the uncertainty.	No commercial value

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B35. An unit at Fenghuang Villa, Chengxiang District, Putian City, Fujian Province, the PRC	The property comprises a unit of a building which is used as office purpose. The property is currently rented by the Group for a term of 1 year from March 20, 2009 to March 19, 2010 at a monthly rental of RMB5,000. According to the PRC legal opinion, no Building Ownership Certificate was provided, it cannot confirm the ownership of the property, therefore, the legal validity of the tenancy agreement is in the uncertainty.	No commercial value
B36. A plot of land at east of No. 325 Notional Road, Yinwu Management District, Huanglue Town, Suixi Country, Zhanjiang City, Guangdong Province, the PRC	The property comprises a plot of land with a site area of 20,867.16 sq.m. (224,614 sq.ft.) which is used as a concrete batching plant. The property is currently rented by the Group for a term of 1 year from February 18, 2009 to February 17, 2010. According to the PRC legal opinion, the lease of temporary land is pending for the land administrative department confirmation, the temporary tenancy agreement is legal, valid and binding.	No commercial value
B37. Unit 204, Block 40, Third District, Binjiangyuan Garden, Laibin City, Guangxi ZAR, the PRC	The property comprises a unit of building with a gross floor area of 215.00 sq.m. (2,314 sq.ft.) which is used as a residential and office purpose. The property is currently rented by the Group for a term of 6 month from March 5, 2009 to September 4, 2009. According to the PRC legal opinion, no Building Ownership Certificate was provided, it cannot confirm the ownership of the property, therefore, the legal validity of the tenancy agreement is in the uncertainty.	No commercial value
B38. Room 422 of Unit 2, Block 3, Jindingshijia Garden, Baise City, Guangxi ZAR, the PRC	The property comprises a unit of building which is used as a residential purpose. The property is currently rented by the Group for a term from March 18, 2009 to December 17, 2009 at a monthly rental of RMB1,000. According to the PRC legal opinion, no Building Ownership Certificate was provided, it cannot confirm the ownership of the property, therefore, the legal validity of the tenancy agreement is in the uncertainty.	No commercial value

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
B39. Room 101-109, Fengkai Party Guesthouse, No. 99 Datanger Road, Jiangkou Town, Fenkai Country, Zhaoqing City, Guangdong Province, the PRC	The property comprises a unit of building with a gross floor area of 200 sq.m. (2,153 sq.ft.) which is used as a office purpose. The property is currently rented by the Group for a term from August, 2008 to August, 2009 at a monthly rental of RMB1,000. According to the PRC legal opinion, the tenancy agreement is legal, valid and binding.	No commercial value
B40. Room 201-209, Fengkai Party Guesthouse, No. 99 Datanger Road, Jiangkou Town, Fenkai Country, Zhaoqing City, Guangdong Province, the PRC	The property comprises a unit of building with a gross floor area of 200 sq.m. (2,153 sq.ft.) which is used as a office purpose. The property is currently rented by the Group for a term from August, 2008 to August, 2009 at a monthly rental of RMB1,000. According to the PRC legal opinion, the tenancy agreement is legal, valid and binding.	No commercial value

APPENDIX V

PROPERTY VALUATION

Group III — Property interests held and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
C1. Portion of Ground Floor, Wah Tung Godown and portion of Yau Tong Marine Lot No. 70 ("Yau Tong Lot"), No. 4 Tung Yuen Street, Yau Tong, Kowloon 600/3150th shares of and in Yau Tong Marine Lot No. 70	The property comprises portion of ground floor of a 7-storey godown completed in 1978, The saleable area of the property is approximately 1,235.32 sq.m. (13,297 sq.ft.). The property is held under Conditions of Sale No. 10873 for a term of 99 years less the last 3 days thereof from July 1, 1898 which has been statutorily extended to June 30, 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the lot per annum.	The property is occupied by the Group as a driveway to the adjoining site, and for storage and ancillary office uses.	HK\$22,000,000 (100% interest attributable to the Group: HK\$22,000,000)

Notes:

- (1) The registered owner of the property is First Route Limited.
- (2) The property is currently zoned for "Residential (Group E)" purpose under Cha Kwo Ling, Yau Tong and Lei Yue Mun Outline Zoning Plan No. S/K15/17 dated April 24, 2009.

APPENDIX V

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
C2. No. 6 Tung Yuen Street, Yau Tong, Kowloon Yau Tong Marine Lot No. 68	The property comprises a batching plant erected on a site with a registered site area of approximately 2,293.76 sq.m. (24,690 sq.ft.). The plant was completed in about 1997. The property is held under Conditions of Sale No. 10752 for a term of 99 years less the last 3 days thereof from July 1, 1898 which has been statutorily extended to June 30, 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is occupied by the Group for the purpose of concrete production.	HK\$96,000,000 (100% interest attributable to the Group: HK\$96,000,000)

Note:

- (1) The registered owner of the property is First Route Limited.
- (2) The property is currently zoned for "Residential (Group E)" purpose under Cha Kwo Ling, Yau Tong and Lei Yue Mun Outline Zoning Plan No. S/K15/17 dated April 24, 2009.

APPENDIX V

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
C3. The Remaining Portions of Lot Nos. 1265, 1207 and 1842 and Section A of Lot No. 1208 all in Demarcation District No. 121, Tong Yan San Tsuen Road, Tong Yan San Tsuen, Yuen Long, New Territories	The property comprises a batching plant erected on four adjoining agricultural lots with a total site area of approximately 4,365.38 sq.m. (46,989 sq.ft.). The plant was completed in about 2001. Lot Nos. 1265, 1207 and 1208 of the property are held under Government leases for terms of 75 years renewed for 24 years less the last 3 days thereof from July 1, 1898 which have been statutorily extended to June 30, 2047. Lot No. 1842 is held under Tai Po New Grant No. 7575, but the document was lost and untraceable. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is occupied by the Group for the purpose of concrete production	HK\$15,000,000 (100% interest attributable to the Group: HK\$15,000,000)

Notes:

- (1) The registered owner of the property is Standard Wealth Investment Limited.
- (2) A short term waiver No. 2530 which allows the subject lots to be used for the purpose of concrete batching as against its original use as agricultural land was granted by the District Lands Office, Yuen Long, Lands Department to Standard Wealth Investment Limited on November 12, 2003. According to the said Short Term Waiver letter, the term of the waiver was for a period of 6 months from June 20, 2001 and thereafter automatically renewed quarterly subject to a three-month's notice of termination in writing given by either Standard Wealth Investment Limited or the District Lands Office, Yuen Long, Lands Department. The total built-over area of the property shall not exceed 730 sq.m. subject to a maximum office area of 30 sq.m. at a height limit of 3 m. and a maximum concrete production plant building area of 700 sq.m. at a height limit of 25 m. with cement silos. As advised by the Group, the current waiver fee payable to the government is HK\$511,120 per quarter.
- (3) The property is currently zoned for "Industrial (Group D)" purpose under Tong Yan San Tsuen Outline Zoning Plan No. S/YL-TYST/10 dated February 7, 2006.

APPENDIX V

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
C4. The Remaining Portion of Lot No. 1390, Section A of Lot No. 1391, Lot Nos. 1393, 1394 and 1395 all in Demarcation District No. 121, Ma Fung Ling Road, Tong Yan San Tsuen, Yuen Long, New Territories	The property comprises five adjoining agricultural lots with a total site area of approximately 1,086.68 sq.m. (11,697 sq.ft.). The property is held under various Government leases all for terms of 75 years renewed for 24 years less the last 3 days thereof from July 1, 1898 which have been statutorily extended to June 30, 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is occupied by the Group mainly for mixer truck parking and open storage purpose.	HK\$2,400,000 (100% interest attributable to the Group: HK\$2,400,000)

Notes:

- (1) The registered owner of the property is General Perfect Limited.
- (2) The property is currently zoned for "Residential (Group B) 1" purpose under Tong Yan San Tsuen Outline Zoning Plan No. S/YL-TYST/10 dated February 7, 2006.

APPENDIX V

PROPERTY VALUATION

Group IV — Property interest held by the Group for investment in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
C5. The Bucket Elevator Room on Ground Floor, Half of 1st Floor and one Ramped Driveway from Ground Floor to 1st Floor, one Hopper Room and one Shaft Area (formerly called the Bucket Elevator Shaft) on 2nd Floor, one Storage Bin on the side of the Bucket Elevator of the building from 3rd Floor upwards to the Roof of the building and the Roof of one Storage Bin on 12th Floor level, Safety Godown Industrial Building, No. 56 Ka Yip Street, Chai Wan, Hong Kong 118/1510th shares of and in Chai Wan Inland Lot Nos. 112 and 115	The property comprises portion of the 1st floor of a 13-storey industrial building together with a bucket elevator room on the ground floor, a ramped driveway from ground floor to 1st floor, a hopper room and a bucket elevator shaft on the 2nd floor, a cement storage bin on the side of the bucket elevator of the building from 3rd floor upwards to the roof of the building and the roof of the storage bin on the 12th floor of the building. The building was completed in 1989. The saleable area of the property is approximately 1,478.91 sq.m. (15,919 sq.ft.), excluding the spaces of the bucket elevator room, ramped driveway, hopper room, the bucket elevator shaft, cement storage bin and the roof of the storage bin on the 12th floor. The property also comprises the right and privilege as tenants in common in equal shares with the owner of the cement pump room on the ground floor of the building to use and enjoy 43 meters continuous length of the sea frontage of Chai Wan Inland Lot No. 112 and the right in common with Glorycourt Limited ("Glorycourt") and Noblecourt Limited ("Noblecourt") and/or such person or persons from time to time authorized by Glorycourt and/or Noblecourt and the owner of the remaining half of the 1st floor to use and enjoy portions of the external wall of the building and to install, affix maintain and operate thereon such machineries, elevators, chimneys, pipes and other fittings and the right in common with Glorycourt, Noblecourt and other person or persons claiming through under or in trust for Glorycourt or Noblecourt and the owner of the remaining half of the first floor to use all areas of Chai Wan Inland Lot Nos. 112 and 115 not covered by any building, all open areas and the sea-front areas therefore and all rights of access to the sea.	The property was let to a tenant for a term of 6 years from February 1, 2008 to January 31, 2014. For the term from November 1, 2008 to January 31, 2014, the rent is HK\$767,905 per month, exclusive of rates and management fees. The tenant shall have the option at any time during the said term of lease to determine the lease by giving to the landlord not less than three months' prior notice in writing.	HK\$34,000,000 (100% interest attributable to the Group: HK\$34,000,000)

APPENDIX V

PROPERTY VALUATION

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at June 30, 2009
	The property is held under Conditions of Sale No. 11487 (as varied and/or modified by three Modification Letters Memorial Nos. 2304955, 3204921 and 3555371) and Conditions of Sale No. 11494 (as varied and/or modified by three Modification Letters Memorial Nos. 2304953, 3204920 and 3555370) each for a term of 75 years from February 12, 1981 and March 27, 1981 respectively renewable for a further term of 75 years. The current total Government rent payable for the subject lots is HK\$2,000 per annum.	—	—

Notes:

- (1) The registered owner of the property is Profit Success Development Limited.
- (2) The property is currently zoned for "Industrial" purpose under Chai Wan Outline Zoning Plan No. S/H20/17 dated November 18, 2005.

APPENDIX V

PROPERTY VALUATION

Group V — Property interests rented by the Group in Hong Kong

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
D1. The Remaining Portion of Lot No. 1263 in Demarcation District No. 121, Tong Yan San Tsuen Road, Yuen Long, New Territories	The property comprises an agricultural lot with a registered site area of approximately 1,268.12 sq.m. (13,650 sq.ft.) on which various single storey temporary structures are erected. The total floor area of the temporary structures is approximately 185.80 sq.m. (2,000 sq.ft.). The property is currently occupied by the Group as open parking area and workshop for vehicle maintenance. The property is rented by the Group for a term of 2 years from October 1, 2007 to September 30, 2009 at a rent of HK\$22,000 per month exclusive of rates and licence fee.	No commercial value

Notes:

- (1) A short term waiver No. 2556 which allows the subject lot to be used for the purpose of concrete production was granted by the District Lands Office, Yuen Long, Lands Department to Tang Sui Hak Tso with Tang Nuen Fun, Tang Kung Leung, Tang Shun Keung and Tang Chu Sau as the manager. According to the said Short Term Waiver letter, the waiver has been renewed quarterly since December 20, 2001 and shall be renewed quarterly subject to a three-month's notice of termination in writing given by either party. The total built-over area of the property shall not exceed 300 sq.m. with a maximum workshop area of 300 sq.m. at a height limit of 4 m. The waiver fee as at June 2007 payable to the government is HK\$145,840 per quarter.
- (2) The property is currently zoned for "Industrial (Group D)" purpose under Tong Yan San Tsuen Outline Zoning Plan No. S/YL-TYST/10 dated February 7, 2006.

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
D2. Lot No. 2899 in Demarcation District No. 111, Pat Heung, Yuen Long, New Territories	The property comprises an agricultural lot with a registered site area of approximately 1,858.05 sq.m. (20,000 sq.ft.). The property is currently occupied by the Group for open parking purpose. The property is rented by the Group for a term of 2 years from December 1, 2007 to November 30, 2009 at a rent of HK\$13,000 per month inclusive of government rent but exclusive of rates and licence fee.	No commercial value

Note: The property is currently zoned for "Residential (Group D)" purpose under Pat Heung Outline Zoning Plan No. S/YL-PH/11 dated October 27, 2006.

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
D3. Berth No. TM11 at Tuen Mun Public Cargo Working Area, Area 16, Tuen Mun, New Territories	The property comprises a vessel berthing space at the waterfront of Tuen Mun Public Cargo Working Area. The property provides a berthing space of approximately 46 m. long and is currently occupied by the Group for the purpose of loading/unloading of sand, cement and aggregates. The property is rented by the Group for a term of 1 years from January 1, 2009 to December 31, 2009 at a rent of HK\$99,750 per month inclusive of outgoings relating to the use of the berthing space.	No commercial value

Note: The property is currently zoned for "Other Specified Uses (Cargo Handling Area)" purpose under Tuen Mun Outline Zoning Plan No. S/TM/25 dated May 22, 2009.

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
D4. Factories A and B on 7th Floor, Block 3, Tai Ping Industrial Centre, No. 53 Ting Kok Road, Tai Po, New Territories	The property comprises all the workshop units on the 7th floor of a 16-storey plus basement industrial building completed in 1983. The total gross floor area of the property is approximately 1,266.63 sq.m. (13,634 sq.ft.). The property is currently occupied by the Group as testing laboratories for construction materials with ancillary office. The property is rented by the Group for a term of 2 years from February 1, 2009 to January 31, 2011 at a rent of HK\$46,000 per month exclusive of rates and management fees.	No commercial value

Note: The property is currently zoned for "Other Specified Uses (Business)" purpose under Tai Po Outline Zoning Plan No. S/TP/21 dated January 23, 2009.

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
D5. 8th Floor, Kaiseng Commercial Centre, Nos. 4-6 Hankow Road, Tsimshatsui, Kowloon	The property comprises the whole of the 8th floor of a 17-storey plus basement commercial building completed in 1985. The gross floor area of the property is approximately 384.62 sq.m. (4,140 sq.ft.). The property is currently occupied by the Group as office use. The property is rented by the Group for a term of 1 year from March 1, 2008 to February 28, 2010 at a rent of HK\$82,800 per month exclusive of government rent, rates and air-conditioning charges/management fees.	No commercial value

Note: The property is currently zoned for "Commercial" purpose under Tsim Sha Tsui Outline Zoning Plan No. S/K1/24 dated March 20, 2009.

APPENDIX V

PROPERTY VALUATION

Property	Description and tenancy particulars	Capital value in existing state as at June 30, 2009
D6. Land adjoining the Remaining Portion of Lot Nos. 1263, 1265, 1207, 1208, 1842 and Section A of Lot No. 1208 all in Demarcation District No. 121, Tong Yan San Tsuen, Yuen Long, New Territories	The property comprises a parcel of land with a registered site area of approximately 515 sq.m. (5,543 sq.ft.) and is currently occupied by the Group for concrete production. The property is rented by the Group under a Short Term Tenancy No. 1945 from the District Lands Office, Yuen Long, Lands Department. According to the Short Term Tenancy, the current rent payable is HK\$84,810 per quarter and will be payable until further notice.	No commercial value

Note: The property is currently zoned for "Industrial (Group D)" purpose under Tong Yan San Tsuen Outline Zoning Plan No. S/YL-TYST/10 dated February 7, 2006.

APPENDIX VI

SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Company law.

Our Company was incorporated in the Cayman Islands as an exempted Company with limited liabilities on March 13, 2003 under the Cayman Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law"). The Memorandum of Association and the Articles of Association comprise the constitution of our Company.

MEMORANDUM OF ASSOCIATION

The Memorandum of Association of our Company was adopted on September 2, 2009 and states, *inter alia*, that the liability of members of our Company is limited, that the objects for which our Company is established are unrestricted and our Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII to this document.

ARTICLES OF ASSOCIATION

The Articles of Association of our Company, adopted on September 2, 2009 include provisions to the following effect:

1. CLASSES OF SHARES

The share capital of our Company consists of ordinary shares. The capital of our Company at the date of adoption of the Articles of Association was HK\$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.10 each.

2. DIRECTORS

2.1 Power to allot and issue Shares

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in our Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by our Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of our Company or the holder thereof, liable to be redeemed.

2.2 Power to dispose of the assets of our Company or any subsidiary

The management of the business of our Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by our Company

APPENDIX VI

**SUMMARY OF THE CONSTITUTION OF OUR
COMPANY AND CAYMAN ISLANDS COMPANIES LAW**

and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by our Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by our Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

2.3 Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by our Company in general meeting.

2.4 Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

2.5 Financial assistance to purchase Shares

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our company, its subsidiaries or any holding Company or any subsidiary of such holding Company in order that they may buy shares in our Company or any such subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of shares in our Company or shares in any such subsidiary or holding Company to be held for the benefit of employees of our company, its subsidiaries, any holding Company of our Company or any subsidiary of any such holding Company (including salaried Directors).

2.6 Disclosure of interest in contracts with our Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with our Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of our Company with any person, Company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to our Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by our company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (a) the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of our Company or any of its subsidiaries;

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- (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or any of his associates has himself/ themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares, debentures or other securities of or by our Company or any other Company which our Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (d) any proposal concerning any other Company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such Company (or of any third Company through which his interest or that of any of his associates is derived) or of the voting rights;
- (e) any proposal or arrangement concerning the benefit of employees of our Company or any of its subsidiaries including:
 - (i) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit;
 - (ii) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of our Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;
- (f) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his interest in shares or debentures or other securities of our company; and
- (g) where one of our Directors is also a director or officers of one of our connected persons, such Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution relating to any transaction between the Company and such connected person, and such Director will absent himself from board meetings when such matters are discussed unless expressly requested to attend by a majority of the independent non-executive Directors.

2.7 Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or our Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in our Company may be entitled by reason of such employment or office.

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The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred while engaged on the business of our Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of our company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of our Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

2.8 Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of our Company and shall then be eligible for re-election at that meeting.

Our Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between our Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). Our Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. Our Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of our Company notice in writing by a member of our Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (a) if he resigns his office by notice in writing to our Company at its registered office or its principal office in Hong Kong;
- (b) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

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- (c) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (d) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (e) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;
- (f) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (g) if he shall be removed from office by a ordinary resolution of the members of our Company under the Articles of Association.

At every annual general meeting of our Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Our Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

2.9 Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

2.10 Proceedings of the Board

The Directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

3. ALTERATION TO CONSTITUTIONAL DOCUMENTS

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

4. VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

If at any time the share capital of our Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the

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provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

5. ALTERATION OF CAPITAL

Our Company in general meeting may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

Our Company may from time to time by ordinary resolution:

- 5.1 consolidate and divide all or any of its share capital into shares of larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to our Company for our company's benefit;
- 5.2 cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Cayman Companies Law; and
- 5.3 sub-divide its shares of any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is subdivided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares.

Our Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Cayman Companies Law.

6. SPECIAL RESOLUTION — MAJORITY REQUIRED

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of

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corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of our Company entitled to vote at a general meeting of our Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of our Company aforesaid.

7. VOTING RIGHTS

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting, every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of our company.

Where any member of our Company is required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of our Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of our Company duly registered and who shall have paid all sums for the time being due from him payable to our Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of our company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a poll.

Votes may be given either personally or by proxy.

If a recognized clearing house (or its nominee) is a member of our Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of our Company or at any general meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee) which he represents as that recognized clearing house (or its nominee) could exercise if it were an individual member of our Company holding the number and class of shares specified in such authorization.

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8. ANNUAL GENERAL MEETINGS

Our Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorize) shall elapse between the date of one annual general meeting of our Company and that of the next.

9. ACCOUNTS AND AUDIT

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of our company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of our company, or any of them, shall be open to the inspection of members of our Company (other than officers of our company) and no such member shall have any right of inspecting any accounts or books or documents of our Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorized by the Directors or by our Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of our Company at every annual general meeting a statements of comprehensive income for the period, in the case of the first account, since the incorporation of our Company and, in any other case, since the preceding account, together with a consolidated statements of financial position as at the date at which the statements of comprehensive income is made up and a Director's report with respect to the profit or loss of our Company for the period covered by the statements of comprehensive income and the state of our company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of our Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by our Company as provided in the Articles of Association to every member of our Company and every holder of debentures of our Company provided that our Company shall not be required to send copies of those documents to any person of whose address our Company is not aware or to more than one of the joint holders of any shares or debentures.

Our Company shall at any annual general meeting appoint an auditor or auditors of our Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by our Company at the annual general meeting at which they are appointed provided that in respect of any particular year our Company in general meeting may delegate the fixing of such remuneration to the Directors.

10. NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice or 20 business days' notice (whichever is longer) in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice or 10 business days' notice (whichever is longer) in writing. Subject to the requirements under the relevant rules and regulations, the notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the

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general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of our Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from our company).

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and consolidated statements of financial positions and the reports of the Directors and the auditors and other documents required to be annexed to the consolidated statements of financial position;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than 20% (or such other percentage as may from time to time be specified in the relevant rules and regulations) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to subparagraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of our Company.

11. TRANSFER OF SHARES

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Directors may dispense with the execution of the instrument of transfer by the transferee in any

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case which it thinks fit to do so. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of our Company in respect thereof. All instruments of transfer shall be retained by our company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which our Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with our Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favor of our company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to our Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the instrument of transfer was lodged with our company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the relevant rules and regulations, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, be suspended and the register of members of our Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

12. POWER OF OUR COMPANY TO PURCHASE ITS OWN SHARES

Our Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of our Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

13. POWER OF ANY SUBSIDIARY OF OUR COMPANY TO OWN SHARES

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

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14. DIVIDENDS AND OTHER METHODS OF DISTRIBUTIONS

Subject to the Cayman Companies Law and Articles of Association, our Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of our Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of our Company such interim dividends as appear to the Directors to be justified by the profits of our company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of our Company all sums of money (if any) presently payable by him to our Company on account of calls, installments or otherwise.

No dividend shall carry interest against our company.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of our Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of our Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. Our Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of our Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of our Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by check or warrant sent through the post addressed to the registered address of the member of our Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of our Company in respect of the joint holding to such person or to such address as the holder or joint holders may in writing direct. Every check or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of our Company in respect of such shares, and shall be sent at his or their risk and the payment of any such check or warrant by the bank on which it is drawn shall operate as a good discharge to our Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Our

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Company may cease sending such checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions. However, our Company may exercise its power to cease sending checks for dividend entitlements or dividend warrants after the first occasion on which such a check or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to our company.

The Directors may, with the sanction of the members of our Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of our company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of our Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

15. PROXIES

Any member of our Company entitled to attend and vote at a meeting of our Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of our company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of our Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of our

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Company from attending and voting on poll at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

16. CALLS ON SHARES AND FORFEITURE OF SHARES

The Directors may from time to time make calls upon the members of our Company in respect of any moneys unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of our Company shall (subject to our Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to our Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other moneys due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of our Company and may be sold, reallocated or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of our Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to our Company all moneys which at the date of forfeiture were payable by him to our Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

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17. INSPECTION OF REGISTER OF MEMBERS

The register of members of our Company shall be kept in such manner as to show at all times the members of our Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the relevant rules and regulations, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of our Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Our register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of our Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the relevant rules and regulations) as the Directors may determine for each inspection.

18. QUORUM FOR MEETINGS AND SEPARATE CLASS MEETINGS

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of our Company present in person or by proxy shall be a quorum provided always that if our Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of our Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our company.

The quorum for a separate general meeting of the holders of a separate class of shares of our Company is described in sub-paragraph 4 above.

19. RIGHTS OF MINORITIES IN RELATION TO FRAUD OR OPPRESSION

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

20. PROCEDURE ON LIQUIDATION

If our Company shall be wound up, and the assets available for distribution amongst the members of our Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of our Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the

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capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of our Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If our Company shall be wound up, the liquidator may with the sanction of a special resolution of our Company and any other sanction required by the Cayman Companies Law, divide amongst the members of our Company in specie or kind the whole or any part of the assets of our Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of our company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of our Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of our Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

21. UNTRACEABLE MEMBERS

Our Company shall be entitled to sell any shares of a member of our Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all checks or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) our Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12-year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12-year period, our Company has caused an advertisement to be published in the newspapers, or, subject to the relevant rules and regulations, by electronic communication in the manner in which notices may be served by our Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares, and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

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SUMMARY OF CAYMAN ISLANDS COMPANIES LAW AND TAXATION

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

1. INCORPORATION

Our Company was incorporated in the Cayman Islands as an exempted Company with limited liability on March 13, 2003 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

2. SHARE CAPITAL

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premium on those shares shall be transferred to an account called the "share premium account." At the option of a company, these provisions may not apply to premium on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

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Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A Company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

3. DIVIDENDS AND DISTRIBUTIONS

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

4. SHAREHOLDERS' SUITS

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

5. PROTECTION OF MINORITIES

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

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Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

6. DISPOSAL OF ASSETS

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

7. ACCOUNTING AND AUDITING REQUIREMENTS

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

8. REGISTER OF MEMBERS

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

9. INSPECTION OF BOOKS AND RECORDS

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

10. SPECIAL RESOLUTIONS

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members

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entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

11. SUBSIDIARY OWNING SHARES IN PARENT

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

12. RECONSTRUCTIONS

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

13. TAKE-OVERS

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

14. INDEMNIFICATION

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

15. LIQUIDATION

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

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16. STAMP DUTY ON TRANSFERS

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

17. TAXATION

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to our Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by our company:
 - (i) on or in respect of the shares, debentures or other obligations of our company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of 20 years from March 25, 2003.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

18. EXCHANGE CONTROL

There are no exchange control regulations or currency restrictions in the Cayman Islands.

19. GENERAL

Maples and Calder, our company's legal advisers on Cayman Islands law, have sent to our Company a letter of advice summarizing aspects of Cayman Islands Company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VIII to this document. Any person wishing to have a detailed summary of Cayman Islands Company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

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STATUTORY AND GENERAL INFORMATION

1. FURTHER INFORMATION ABOUT US

A. Incorporation

We were incorporated on March 13, 2003 in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law. We have established a place of business in Hong Kong at 44th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and have been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance. Madam ZHOU Junqing and Mr. ZHOU Longshan have been appointed as our agent for the acceptance of service of process and notices under the same address. As we were incorporated in the Cayman Islands, our corporate structure, Memorandum of Association and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant provision of our Memorandum of Association and Article of Association and certain relevant aspects of Cayman Islands Companies Law are set out in "Appendix VI — Summary of the Constitution of our Company and Cayman Islands Companies Law" to this document.

B. Changes in Our Share Capital

Since the date of incorporation of our Company, the following alterations in the share capital of our Company have taken place:

- (a) On the date of incorporation of our Company, its authorized share capital was HK\$100,000,000 divided into 1,000,000,000 Shares, of which one Share was allotted and issued to the subscriber for cash at par.
- (b) On March 20, 2003, one Share was transferred to China Resources Enterprise, Limited by the subscriber at par.
- (c) On March 25, 2003, an additional one Share was allotted and issued at HK\$100,000,000 to China Resources Enterprise, Limited, such new Share ranks pari passu in all respects with the then existing Share.
- (d) On July 15, 2003, our Company issued and allotted one Share, credited as fully paid at par, to China Resources Enterprise, Limited as consideration for the acquisition of the entire issued share capital of China Resources Cement Limited (then named Innovative Market Limited).
- (e) On July 15, 2003, our Company allotted and issued 208,052,458 Shares by way of the capitalization of HK\$20,805,246 standing to the credit of the share premium account of our Company for distribution to China Resources Enterprise, Limited.
- (f) On July 22, 2003, our Company allotted and issued 154,755,000 Shares, credited as fully paid at par, to China Resources Holdings as consideration for the acquisition of Flavour Glory, Clear Bright, Full Sincere Limited and Goodsales Investments Limited and for the settlement of the outstanding loan of HK\$208,705,000 due by our Group to China Resources Holdings.
- (g) On February 23, 2005, our Company allotted and issued 19,000,000 Shares, credited as fully paid at par, as consideration for the acquisition of the remaining 25% equity interest in China Resources Dongguan Cement Manufactory Holdings Limited. The new Shares rank pari passu with the existing Shares in all respects.
- (h) As at December 31, 2005, our Company allotted and issued a total of 56,000 Shares upon conversion of HK\$112,000 of the zero coupon convertible bonds due 2010 ("Convertible Bonds") issued by China Resources Cement Finance Limited, a wholly-owned subsidiary of our Company, and guaranteed by our Company.

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- (i) On March 29, 2006, China Resources Holdings, through Smooth Concept, put forward to the Shareholders a scheme proposing the privatization of the Company (the "Scheme of Arrangement"). Under the Scheme of Arrangement, the Shareholders would receive from Smooth Concept in consideration for the cancellation of their Shares HK\$2.45 in cash ("Cash Alternative") or one share of Smooth Concept, credited as fully paid up, for every Share they held. As at March 29, 2006, China Resources Holdings held 270,132,647 Shares, while all other Shareholders collectively held 111,730,814 Shares (being a total of 381,863,461 Shares). In consideration for the cancellation of their Shares, China Resources Holdings was issued 270,132,647 shares in Smooth Concept, Shareholders holding 111,613,277 Shares accepted the Cash Alternative and Shareholders holding 117,537 Shares were issued the same number of shares in Smooth Concept. In addition to the cancellation of 381,863,461 Shares, the 371,436,000 Shares issued by the Company upon conversion of the Convertible Bonds held by Firstsuccess Investments Limited were also cancelled. Pursuant to the Scheme of Arrangement, all 753,299,461 Shares in issue were cancelled on July 31, 2006 and were followed by the immediate re-issue of the same number of Shares to Smooth Concept.
- (j) On August 24, 2006, our Company issued 28,488,000 Shares, credited as fully paid at par, as the settlement to Smooth Concept of HK\$56,976,000 for the redemption of the Convertible Bonds held by Smooth Concept under the Scheme of Arrangement. These Shares rank pari passu with the then existing issued Shares in respect of ranking for dividends, capital and voting rights attached thereto.
- (k) On June 30, 2008, our Company issued one Share to Smooth Concept for a consideration of HK\$866,000,000.
- (l) On August 31, 2009, the authorized share capital of our Company was increased to HK\$1,000,000,000 divided into 10,000,000,000 Shares by the authorization of 9,000,000,000 Shares of HK\$0.10 par value each.
- (m) On September 2, 2009, our Company issued 4,000,000,000 Shares to Smooth Concept in exchange for HK\$1,000,000,000.

In 2008, we underwent a series of reorganization, details of which are set out in the paragraph headed "Group Reorganization" below.

Save as disclosed in this document, there has been no change in our share capital since incorporation.

C. Changes in the Share Capital of our Subsidiaries

Our subsidiaries are referred to in the Accountants' Report of the Company as set out in Appendix I to this document. The following alterations in the share capital (or registered capital, as the case may be) of our subsidiaries have taken place within the two years preceding the date of this document:

Nanning Cement

On July 15, 2008, Nanning Cement obtained an approval from the Commerce Department of Guangxi Zhuang Autonomous Region for the increase of its registered capital from US\$29,400,000 to US\$55,200,000. Nanning Cement has obtained approval on August 7, 2008 from the Commerce Department of Guangxi Zhuang Autonomous Region and the business license was obtained on December 31, 2008.

Pingnan Cement

On April 29, 2008 and September 4, 2008, Pingnan Cement obtained approvals from the Commerce Department of Guangxi Zhuang Autonomous Region for the increase of its registered capital from

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RMB636,920,000 to RMB866,420,000. This approval was extended to be effective till December 31, 2008. On May 19, 2008, Pingnan Cement obtained approval from Guangxi MOFCOM on increasing its registered capital from RMB866,420,000 to RMB1,080,780,000. Pingnan Cement has obtained approval on March 3, 2009 and the business license was obtained on March 13, 2009.

Shangsi Cement

On August 1, 2008, the registered capital of Shangsi Cement was increased from RMB16,000,000 to RMB220,440,000. The registered capital has not been paid up yet.

CRC Investments

In June 2008, CRC Investments has applied for the increase of its registered capital from US\$30,000,000 to US\$200,000,000. We are currently waiting for the approval of the application from the relevant governmental agency.

Shantou Cement

On August 20, 2008, Shantou Cement obtained the government approval for the increase of its registered capital from RMB166,440,000 to RMB210,000,000, and the business licence was obtained on March 20, 2009.

Fengkai Cement

On February 19, 2009, Fengkai Cement obtained the government approval for the increase of its registered capital from HK\$50,000,000 to US\$34,435,600, and the business licence was obtained on April 17, 2009.

Guangxi Concrete

On March 20, 2008, the registered capital of China Resources Concrete (Guangxi) Limited was increased from HK\$21,000,000 to HK\$34,000,000. The registered capital was fully paid up.

Fuzhou Cement

On August 4, 2008, the registered capital of China Resources Cement (Fuzhou) Limited (formerly Fuzhou Development Zone Shun Li Building Materials Company Limited) was increased from RMB14,000,000 to US\$14,770,000. The registered capital was fully paid up.

Heyuan Concrete

On August 10, 2007, the registered capital of Heyuan China Resources Pengyuan Concrete Limited was increased from RMB10,000,000 to RMB12,000,000. The registered capital was fully paid up.

2. GROUP REORGANIZATION

For information with regard to our Reorganization, see "History and Reorganization."

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3. FURTHER INFORMATION ABOUT THE BUSINESS

A. Summary of Material Contracts

We or our subsidiaries have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this document that are or may be material:

- (i) an equity transfer agreement dated March 10, 2008 entered into between Hongshuihe Cement and CRC Investments, pursuant to which Hongshuihe Cement transferred its 70% equity interest in Zhanjiang Hongshuihe Cement to CRC Investments for a consideration of RMB20,348,790.82;
- (ii) an equity transfer agreement dated October 28, 2007 entered into between Xiao Qinghui and China Resources Concrete Limited, pursuant to which Xiao Qinghui transferred the entire equity interest in Heyuan China Resources Pengyuan Concrete Limited to China Resources Concrete Limited for a consideration of RMB26.98 million;
- (iii) an equity purchase agreement dated September 27, 2007 and a supplementary agreement dated September 29, 2007 entered into between China Resources Cement Limited, Zhejiang Benteng Investments Limited, Chen Renhui, Weng Chunbo and Wang Shizhong, pursuant to which Zhejiang Benteng Investments Limited, Chen Renhui and Weng Chunbo transferred the entire equity interest in China Resources Cement (Fuzhou) Limited (then known as Fuzhou Development Zone Shun Li Building Materials Company Limited) to China Resources Cement Limited for a consideration of RMB19,640,781.29;
- (iv) an equity transfer agreement dated February 22, 2008 entered into between China Resources Cement Limited and China Resources Cement (Fuzhou) Holdings Limited, pursuant to which China Resources Cement Limited transferred the entire equity interest in China Resources Cement (Fuzhou) Limited (then known as Fuzhou Development Zone Shun Li Building Materials Company Limited) to China Resources Cement (Fuzhou) Holdings Limited for a consideration of US\$2,553,300;
- (v) a sale and purchase agreement dated June 30, 2008 entered into between Smooth Concept and our Company, pursuant to which Smooth Concept agreed to sell to our Company the entire issued share capital in Top Dragon Resources Limited, Smartec Resources Limited, Rossa Resources Limited, Mingo Resources Limited, Kenetic Resources Limited, Hentex Resources Limited, Ango Resources Limited, Hongda Resources Limited, Capital Rich Resources Limited and Eurolink Resources Limited for a consideration of HK\$10,000, HK\$10,000, HK\$10,000, HK\$200, US\$2, HK\$10,000, HK\$10,000, HK\$10,000, HK\$10,000 and HK\$10,000, respectively;
- (vi) a sale and purchase agreement dated June 30, 2008 entered into between Smooth Concept and China Resources Cement Limited, pursuant to which Smooth Concept agreed to sell to China Resources Cement Limited the entire issued share capital in Flavour Glory and Clear Bright for a consideration of HK\$244,764,471 and HK\$71,007,628, respectively;
- (vii) an equity transfer agreement dated June 13, 2008 entered into between China Resources Cement Limited and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which China Resources Cement Limited transferred the entire equity interest in Nanning

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- Cement to China Resources Cement Holdings (Hong Kong) Limited for a consideration of US\$29.4 million;
- (viii) an equity transfer agreement dated June 15, 2008 entered into between China Resources Cement Limited and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which China Resources Cement Limited transferred the entire equity interest in Shangsi Cement to China Resources Cement Holdings (Hong Kong) Limited for a consideration of HK\$1;
 - (ix) an equity transfer agreement dated June 16, 2008 entered into between China Resources Cement Limited and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which China Resources Cement Limited transferred the entire equity interest in China Resources Cement (Fengkai) Limited to China Resources Cement Holdings (Hong Kong) Limited for a consideration of HK\$50 million;
 - (x) an equity transfer agreement dated June 15, 2008 entered into between our Company and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which the Company transferred the entire equity interest in CRC Investments to China Resources Cement Holdings (Hong Kong) Limited for a consideration of US\$30 million;
 - (xi) an equity transfer agreement dated June 20, 2008 entered into between our Company and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which the Company transferred the entire equity interest in Guigang Cement to China Resources Cement Holdings (Hong Kong) Limited for a consideration of US\$55,104,000;
 - (xii) an equity transfer agreement dated June 16, 2008 entered into between Tricot Limited, China Resources Cement Holdings (Hong Kong) Limited and our Company, pursuant to which Tricot Limited transferred 53.59% of its equity interest in Pingnan Cement to China Resources Cement Holdings (Hong Kong) Limited for a consideration of RMB579.2 million;
 - (xiii) an equity transfer agreement dated June 17, 2008 entered into between China Resources Concrete Limited and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which China Resources Concrete Limited transferred the entire equity interest in China Resources Concrete (Dongguan Fengcheng) Limited to China Resources Cement Holdings (Hong Kong) Limited for a consideration of HK\$20 million;
 - (xiv) an equity transfer agreement dated June 16, 2008 entered into between China Resources Concrete Limited and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which China Resources Concrete Limited transferred the entire equity interest in Dongguan Concrete to China Resources Cement Holdings (Hong Kong) Limited for a consideration of HK\$20 million;
 - (xv) an equity transfer agreement dated June 15, 2008 entered into between China Resources Concrete Limited and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which China Resources Concrete Limited transferred the entire equity interest in China Resources Concrete (Jiangmen) Limited to China Resources Cement Holdings (Hong Kong) Limited for a consideration of HK\$20 million;
 - (xvi) an equity transfer agreement dated June 15, 2008 entered into between China Resources Concrete Limited and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which China Resources Concrete Limited transferred the entire equity interest in China

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- Resources Concrete (Nanning Xixiangtang) Limited to China Resources Cement Holdings (Hong Kong) Limited for a consideration of HK\$20 million;
- (xvii) an equity transfer agreement dated June 15, 2008 entered into between China Resources Concrete Limited and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which China Resources Concrete Limited transferred the entire equity interest in China Resources Concrete (Guangxi) Limited to China Resources Cement Holdings (Hong Kong) Limited for a consideration of HK\$34 million;
- (xviii) an equity transfer agreement dated June 15, 2008 entered into between the Company and China Resources Cement Holdings (Hong Kong) Limited, pursuant to which the Company transferred the entire equity interest in China Resources Concrete (Nanning) Limited to China Resources Cement Holdings (Hong Kong) Limited for a consideration of HK\$20 million;
- (xix) a trademark licensing agreement dated August 18, 2008 entered into between China Resources National Corporation and our Company, pursuant to which China Resources Holdings granted to our Company a non-exclusive license to use the trademark of “華潤” (Huarun), details of which are set out in the section headed “Connected Transactions”;
- (xx) a bidding agreement dated December 17, 2008 and a confirmation letter for conclusion of auction dated December 18, 2008 entered into between CRC Investments and Hainan Hengji Fengye Auction Limited, pursuant to which CRC Investments acquired 29.3% equity interest in Hainan Cement for a consideration of RMB269 million;
- (xxi) an equity and debt transfer agreement dated June 30, 2009 entered into between Guo Tou and CRC Investments, pursuant to which Guo Tou agreed to transfer its 34.14% equity interest in Hainan Cement and a debtor’s right in relation to a debt of RMB246,985,267.67 owed by Hainan Cement to Guo Tou; and
- (xxii) a Non-Competition Deed dated September 2, 2009 entered into between our Company and China Resources Holdings and our Company, pursuant to which China Resources Holdings provided certain non-compete undertakings to our Company.

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B. Our Intellectual Property Rights

(i) As at the Latest Practicable Date, we were the registered proprietor of the following trademark(s):

Trade Mark	Place of registration	Class	Name of proprietor	Expiry Date
	PRC	19 ⁽¹⁾	Hongshuihe Cement	March 29, 2014
	PRC	19 ⁽¹⁾	Clear Bright	July 27, 2011

(ii) As at the latest practicable date, we have license to use the following trademark(s):

Trade Mark	Place of registration	Class	Name of proprietor	Expiry Date
	PRC	19 ⁽¹⁾	China Resources National Corporation	June 13, 2014
 ⁽²⁾	Hong Kong	1	China Resources Holdings	March 27, 2010
	Hong Kong	2	China Resources Holdings	March 27, 2010
	Hong Kong	3	China Resources Holdings	March 3, 2010
	Hong Kong	4	China Resources Holdings	March 3, 2010
	Hong Kong	5	China Resources Holdings	March 3, 2010
	Hong Kong	6	China Resources Holdings	March 3, 2010
	Hong Kong	7	China Resources Holdings	March 3, 2010
	Hong Kong	8	China Resources Holdings	March 3, 2010
	Hong Kong	9	China Resources Holdings	March 3, 2010
	Hong Kong	11	China Resources Holdings	March 27, 2010
	Hong Kong	12	China Resources Holdings	March 27, 2010
	Hong Kong	14	China Resources Holdings	March 3, 2010
	Hong Kong	16	China Resources Holdings	March 3, 2010
	Hong Kong	17	China Resources Holdings	March 3, 2010
	Hong Kong	18	China Resources Holdings	March 3, 2010
	Hong Kong	19	China Resources Holdings	March 3, 2010
	Hong Kong	20	China Resources Holdings	March 27, 2010
	Hong Kong	22	China Resources Holdings	March 27, 2010
	Hong Kong	23	China Resources Holdings	March 3, 2010

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Trade Mark	Place of registration	Class	Name of proprietor	Expiry Date
	Hong Kong	24	China Resources Holdings	March 3, 2010
	Hong Kong	25	China Resources Holdings	March 3, 2010
	Hong Kong	26	China Resources Holdings	March 3, 2010
	Hong Kong	29	China Resources Holdings	March 3, 2010
	Hong Kong	30	China Resources Holdings	March 3, 2010
	Hong Kong	31	China Resources Holdings	March 3, 2010
	Hong Kong	32	China Resources Holdings	March 3, 2010
	Hong Kong	33	China Resources Holdings	March 3, 2010
	Hong Kong	34	China Resources Holdings	March 3, 2010
	Hong Kong	35	China Resources Holdings	March 3, 2010
	Hong Kong	36	China Resources Holdings	March 3, 2010
	Hong Kong	37	China Resources Holdings	March 3, 2010
	Hong Kong	38	China Resources Holdings	March 3, 2010
	Hong Kong	39	China Resources Holdings	March 3, 2010
	Hong Kong	40	China Resources Holdings	March 3, 2010
	Hong Kong	41	China Resources Holdings	March 3, 2010
	Hong Kong	42	China Resources Holdings	March 3, 2010

Notes:

- (1) *Approved commodities for the use of the trademark under Class 19 include: timber; veneer; concrete; plaster mortar; building stone; gypsum; asbestos cement; cement; cement for furnace; cement for blast furnace; magnesia cement; concrete building elements; concrete board; concrete tube; fire-resisting materials; asphalt; tomb tablet; tomb stone (end of commodities).*

- (2) *The table below sets out the details of the classes of goods/services registered under* :

Class	Specification
1	Chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; chemical substances for preserving foodstuffs.
2	Paints, varnishes, lacquers; preservatives against rust and against deterioration of wood; colorants; mordants; raw natural resins; metals in foil and powder form for painters, decorators, printers and artists.
3	Bleaching preparations and other substances for laundry use; cleaning, polishing, scouring and abrasive preparations; materials and preparations for cleaning metal; rust removers; cleaning preparations for electrical motors, electrical systems, automotive equipment, industrial equipment and electrical equipment.
4	Gasoline (petrol), unleaded gasoline; diesel oils, automotive diesel, light diesel oil, industrial light diesel oil, marine light diesel oil, boiler diesel oil, bunker diesel oil, fishing light diesel oil; kerosene, jet fuel and/or aviation fuel; fuel oils, low sulphur fuel oil, high sulphur fuel oil, bunker fuel oil, industrial fuel oil; lubricants; liquefied petroleum gas; industrial oils and greases; fuels (including motor spirit) and illuminants.

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Class	Specification
5	Pharmaceutical, veterinary and sanitary preparations and substances; nutritional preparations and substances for medical use; dietetic substances, foods and beverages adapted for medical use; food for babies; medicated drinks and beverages, dietetic drinks; Chinese herbal medicinal preparations, vitamin preparations, decoctions for pharmaceutical purposes, digestives for pharmaceutical purposes, analgesics, evacuants, medicinal tea, cod liver oil, anthelmintics, laxatives, medicinal oil, herbs, medical preparations for skin care, medical preparations for slimming purposes, medicines for skin itch, medicinal alcohol, ointments for pharmaceutical purposes, dietetic beverages adapted for medical purposes.
6	Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores.
7	Machines and machine tools; motors and engines (except for land vehicles); machines coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated.
8	Hand tools and implements (hand operated); cutlery; side arms; razors.
9	Electric, electronic, facsimile, telex, telephone, telegram, telecommunications, data communications and data acquisition installations, apparatus and instrument; all for processing, logging, storing, transmission, displays, reception, input, output or printout of non-pictorial or graphical data; pagers; telephones; mobile telephones; apparatus for recording, transmission or reproduction of sound or images; electrical and scientific apparatus; electric connector plugs, electric terminal strips, control knobs for electric apparatus, fuses for electric apparatus, cases adapted for aligning electrical communication apparatus; telecommunication and communication switching apparatus; electronic mail apparatus; electronic computers; electronic directory apparatus; electronic devices for storage, retrieval, communication transmission, input, output and processing of information and data; electric accumulators, electric accumulators for vehicles; electrical ducts, low voltage electrical apparatus, transformers, power sources, junction boxes, medium and high voltage electrical apparatus, isolating switches, circuit breakers, surge arresters, distribution units; integrated circuits, electrical discharge devices; electrical batteries and rechargeable batteries.
11	Apparatus for lighting, heating, steam generating, ventilating.
12	Vehicles, apparatus for locomotion by land, air or water.
14	Precious metals and their alloys and goods in precious metals or coated therewith, not included in other classes; jewellery, precious stones; horological and chronometric instruments.
16	Paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationary or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks; playing cards.
17	Rubber, gutta-percha, gum, asbestos, mica and goods made from these materials and not included in other classes; plastics in extruded form for use in manufacture; packing, stopping and insulating materials; flexible pipes, not of metal.
18	Leather and imitations of leather, and goods made from these materials and not included in other classes; animal skins, hides; trunks and travelling bags; umbrellas, parasols and walking sticks; whips, harness and saddlery.
19	Building materials (non-metallic); non-metallic rigid pipes for building; asphalt, pitch and bitumen; non-metallic transportable buildings; monuments, not of metal; cement.
20	Furniture.
22	Raw fibrous textile materials.
23	Yarns and threads, for textile use.
24	Textiles and textile goods, not included in other classes; bed and table covers.
25	Clothing, footwear, headgear.
26	Lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles.
29	Meat, fish, poultry and game; meat extracts; preserved, dried and cooked fruits and vegetables; jellies, jams, fruit sauces; eggs, milk and milk products; edible oils and fats.
30	Coffee, tea, cocoa, sugar, rice, tapioca, sago, artificial coffee, flour and preparations made from cereals, bread, pastry and confectionery, ices, honey, treacle, yeast, baking-powder, salt, mustard, vinegar, sauces (condiments), spices, ice, peppermints sweets, golden syrup, non-medicated confectionery containing herbs in jelly form.
31	Agricultural, horticultural and forestry products and grains not included in other classes; live animals; fresh fruits and vegetables; seeds, natural plants and flowers; foodstuffs for animals, malt.
32	Beers; mineral and aerated waters and other non-alcoholic drinks; fruit drinks and fruit juices; syrups and other preparations for making beverages.
33	Alcoholic beverages (except beers).
34	Tobacco; smokers' articles; matches.

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Class	Specification
35	Professional business consultancy; business information services; business organization consultancy; import-export agency services; sales promotion services for others and marketing services, distribution of samples; arranging, conducting and organization of trade events, trade shows; arranging, conducting and organization of exhibitions for business, commercial, advertising or trade purposes; department store and supermarket wholesaling and retailing services; wholesaling and retailing of chemicals, toluene, mixed xylene, butyl glycol, isopropyl alcohol, butyl acrylate, methyl ethyl ketone, normal butanal, styrene monomer, 2-ethylhexyl acrylate, paraffin wax, white oil, aluminium sulphate, sodium silicofluoride, acetone, butyl methacrylate, cyclohexanone, toluene-2, 4-diisocyanate, vinyl acetate, ethyl acetate, chemicals used in industry, in agriculture, horticulture and forestry, chemical substances for preserving foodstuffs, tanning substances, adhesives used in industry, gasoline (petrol), unleaded gasoline, diesel oils, automotive diesel, light diesel oil, industrial light diesel oil, marine light diesel oil, boiler diesel oil, bunker diesel oil, fishing light diesel oil, kerosene, jet fuel and/or aviation fuel, fuel oils, low sulphur fuel oil, high sulphur fuel oil, bunker fuel oil, industrial fuel oil, lubricants, liquefied petroleum gas, industrial oils and greases, lubricants, fuels (including motor spirit) and illuminants, iron, steel, cement textiles and machinery, clothing, footwear and headgear, food and beverages, dietetic substances adapted for medical use, Chinese and western medicines, ginseng and tonic, herbal medicines, health products and health foods; provision of information, consultancy services and advisory services relating to all the aforesaid services; all included in Class 35.
36	Insurance services; guarantee insurance; life insurance and mutual funds; pension services; insurance underwriting; travel insurance, insurance brokerage services; real estate agency services and real estate management, real estate brokerage services; provision of information, consultancy services and advisory services relating to all the aforesaid services; all included in Class 36.
37	Construction, insulation, renovation, restoration, repair and maintenance of buildings, including car parks, shopping complexes, offices, hotels, serviced apartments, apartments, houses, swimming pools, skating rinks, installations for parking bicycles; building construction; provision of information relating to construction; building construction supervision; building insulating, building sealing, scaffolding; rental of construction equipment; cleaning of interior and exterior surface of buildings; cleaning and repair; construction of power generating plants; installation, maintenance, repair and servicing of gas supply and distribution apparatus and instruments; repair, maintenance and servicing of gas apparatus and instruments; mining extraction; provision of information, consultancy services and advisory services relating to all the aforesaid services; all included in Class 37.
38	Telecommunications services; transmission of data and of information by electronic, computers, electronic mail, telephone; all included in Class 38.
39	Packaging of goods, unloading cargo, rental of storage containers; provision of information relating to storage; storage of goods, rental of warehouses, warehousing services; transport and storage of trash and waste; gas filling services; distribution, transportation and storage of fuel, oil, petroleum, gas and lubricants; consultancy services and advisory services relating to all the aforesaid services; all included in Class 39.
40	Material processing; services for the treatment of oil, used lubricants and gas; custom assembling, manufacturing and fabrication services; custom injection molding; all relating to circuit boards and printed circuit boards, circuit breakers and closers, electronic and electric materials and instruments; refining and processing of oil and gas; processing of refinery products to produce other products relating to the chemical industry; custom assembling and manufacturing services relating to machinery and equipment for the processing of textile raw materials, textile final products, yarns and threads; provision of information, consultancy services and advisory services relating to all the aforesaid services; all included in Class 40.
41	Education services in the fields of oil, gas and petrochemical industries, science, health, safety and environment; workshops and training courses relating to business, commercial, provision of information, consultancy services and advisory services relating to all the aforesaid services; all included in Class 41.
42	Architectural advice and consultancy services; design of equipment for use in industrial processes; liaison services to facilitate the exchange of technical and technological information; technical project studies and research; product development; research and development of new chemical and petro-chemical processes; advisory and consultancy services relating to process technology; liaison services to facilitate the exchange of technical and technological information; support services in the form of technical consultancy and technical assistance to licensees; industrial design services; analytical services/analyses of substances drawn from various points in manufacturing processes; provision of information, consultancy services and advisory services relating to all the aforesaid services; all included in Class 42.

(iii) As at the Latest Practicable Date, we had registered the following domain names:

Domain Name	Registrant	Registration Date	Expiration Date
crcement.com	China Resources Cement Holdings Limited	June 2, 2003	June 2, 2013
crcement.net	China Resources Cement Holdings Limited	June 2, 2003	June 2, 2013
crcement.com.hk	China Resources Cement Holdings Limited	June 13, 2003	June 14, 2013

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4. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT AND EMPLOYEES

[●]

C. Service Contracts

None of our Directors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation).

D. Directors' Remuneration

The aggregate amount of remuneration (including fees, salaries and allowances, contributions to mandatory provident funds, and Share-based payments) which was paid to our Directors for the years ended December 31, 2006, 2007 and 2008 was approximately HK\$4.1 million, HK\$5.2 million and HK\$7.3 million, respectively.

Under the arrangement currently in force, the aggregate amount of remuneration payable by our Group to and benefits in kind receivable by the Directors for the year ending December 31, 2009, are expected to be approximately HK\$8.4 million.

E. Fees or commission received

Save as disclosed in this document, none of the directors or any of the persons whose names are listed in the paragraph headed "Consents" in this Appendix VII had received any commission, discounts, agency fee, brokerages or other special terms in connection with the issue or sales of any capital of any member of our Group from our Group within the two years preceding the date of this document.

F. Related Party Transactions

During the year preceding the date of this document, our Group has engaged in related party transactions as described under the section headed "Connected Transactions."

G. Share Award Scheme

Summary

Our Company has adopted a share award scheme ("Share Scheme"). A trust ("Trust") has been set up and BOCI-Prudential Trustee Limited has been appointed as the trustee ("Trustee"). The Shares purchased under the Share Scheme will be held in trust for the relevant employees until such Shares are vested in accordance with the provisions of the rules relating to Share Scheme ("Scheme Rules").

(i) Purpose

The purpose of the Share Scheme is to recognize the contributions of officers and employees of our Group, excluding any director of the Company ("Selected Grantees") towards the development of our Group in the past or as incentives to Selected Grantees to achieve higher-than-target profits for our Group and to align the interests of the Selected Grantees with sustainable growth and development of our Group.

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(ii) Eligible employees ("Eligible Employee")

Any officer or employee of a member of our Group, excluding (i) any directors of our Group; or (ii) any employee who is resident in a place where the settlement of the award of the Shares and/or the vesting and transfer of Shares pursuant to the terms of the Scheme Rules is not permitted under the laws and regulations of such place or where in the view of the Board or the Trustee (as the case may be) compliance with applicable laws and regulations in such place make it necessary or expedient to exclude such employee; and (iii) any employee beneficially interested in 5% or more of the issued shares of our Company or of the voting rights ((i) to (iii) collectively, "Excluded Employees").

(iii) Administration

The Share Scheme shall be subject to the administration of the Board in accordance with the Scheme Rules.

(iv) Maximum Limit

The aggregate number of Shares purchased by the Trust under the Share Scheme shall not exceed 2.5% of all issued shares of our Company. Our Board shall not make any further award which will result in the number of Shares awarded by our Board under the Share Scheme would represent in excess of 2.5% of the issued share capital of our Company, from time to time.

The aggregate maximum number of Shares which may be awarded to a Selected Grantee under the Share Scheme shall not exceed 0.1% of the issued share capital of our Company.

(v) Operation

[●]

(vi) Vesting

Our Board may, from time to time, at its absolute discretion select any Eligible Employee for participation in the Share Scheme as a Selected Grantee. The Selected Grantee shall in his/her acceptance:

- (i) confirm his/her acceptance of the grant;
- (ii) declare that he/she is not an Excluded Employee; and
- (iii) undertake that he/she shall inform our Board once he/she has changed his/her place of residence or nationality or has elected to take up share or option under the Share Scheme.

Unvested installment(s) of Shares held by the Trustee upon the Trust shall vest in that Selected Grantee in accordance with the timetable as determined by our Board at its discretion.

(vii) Total lapse and partial lapse

In the event (i) a Selected Grantee ceases to be an Eligible Employee, or (ii) the subsidiary of the Company by which a Selected Grantee is employed ceases to be a subsidiary of our Company, or (iii) an order for the winding-up of the subsidiary is made or a resolution is passed for the voluntary winding-up of the subsidiary (otherwise than for the purposes of, and followed by, an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and

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liabilities of the Subsidiary pass to a successor company) (each of these, an event of "Total Lapse"), the relevant portion of the award shall automatically lapse forthwith and all the awarded Shares comprised of under such award shall not vest.

In the event (i) a Selected Grantee is found to be an Excluded Employee, or (ii) a Selected Grantee is dismissed, or commits an indictable offence or is considered by the Human Resources Department of the Company at its entire discretion, to have committed serious breach of conduct or ethics or serious dereliction of duties or unbecoming conduct which adversely affects the reputation of the Group, or (iii) a Selected Grantee fails to return duly executed transfer documents prescribed by the Trustee for the relevant awarded Shares within the stipulated period (each of these, an event of "Partial Lapse"), the relevant part of an award made to such Selected Grantee shall automatically lapse forthwith and the relevant awarded Shares shall not vest.

(viii) Voting Rights

The Trustee shall not exercise the voting rights in respect of any Shares held under the Trust (including but not limited to the awarded Shares, and further Shares acquired out of the income derived therefrom).

(ix) Duration and Termination

The Share Scheme shall be valid and effective for a term of 10 years commencing on the Adoption Date. No further award shall be made on or after the 10th anniversary date of the Adoption Date.

The Share Scheme shall terminate on the earliest of: (i) on the 10th anniversary of the Adoption Date; (ii) such date of early termination as determined by our Board provided that such termination shall not affect any subsisting rights of any Selected Grantee hereunder; (iii) an amalgamation or reconstruction in such circumstances that substantially the whole of the undertaking, assets and liabilities of our Company pass to a successor company; and (iv) the date when an order for the winding-up of our Company is made or a resolution is passed for the voluntary winding-up of the Company.

Upon termination, (i) no further award may be granted; (ii) all the awarded Shares shall become automatically vested on the Selected Grantee so referable on such date of termination save in respect of the Total Lapse, subject to the receipt by the Trustee of the transfer documents prescribed by the Trustee and duly executed by the Selected Grantee within the period stipulated by the Trustee; (iii) any Shares or cash remaining in the trust fund shall be transferred to and settled with China Resources Charitable Fund Limited, a charitable organization registered with the Inland Revenue Department of Hong Kong, as soon as practicable after the date of termination; where such settlement cannot be effected for any reason without default on the part of the Trustee, such properties of the Trust shall be transferred and settled with such charitable organization as the Trustee deems appropriate in its sole and absolute discretion.

Present Status of the Share Scheme

As at the date of this document, no Share has been granted or agreed to be granted pursuant to the Share Scheme. Our Company has no plan to vest any Shares held by the Trust by the end of 2009.

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5. DISCLAIMERS

Save as disclosed in this document:

- (i) [●]
- (ii) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Consents” under the section headed “Other Information” in this Appendix VII is interested in our promotion, or in any assets which have within the two years immediately preceding the issue of this document been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (iii) none of our Directors nor any of the persons whose names are listed in the paragraph headed “Consents” under the section headed “Other Information” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is unusual in its nature or conditions or which is significant in relation to the business of our Group;
- (iv) none of the persons whose names are listed in the paragraph headed “Consents” under the section headed “Other Information” in this Appendix VII has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (v) none of our Directors are interested in any business apart from our Group’s business, which competes or is likely to compete, directly or indirectly, with the business of our Group.

6. OTHER INFORMATION

Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries in the Cayman Islands, British Virgin Islands, Hong Kong or the PRC.

Litigation

Neither we nor any of our subsidiaries are involved in any material litigation, arbitration or administrative proceedings of material importance. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened against us, that would have a material adverse effect on our results of operations or financial condition.

Qualification of Experts

The qualifications of the experts who have given opinions or advice in this document are as follows:

<u>Name</u>	<u>Qualification</u>
Deloitte Touche Tohmatsu	Certified Public Accountants
DTZ Debenham Tie Leung Limited	Independent professional property valuer
Maples and Calder	Cayman Islands Legal Adviser
Concord	PRC Legal Adviser

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Consents

Each of Deloitte Touche Tohmatsu, DTZ Debenham Tie Leung Limited and Concord has given and has not withdrawn its written consent to the issue of this document with the inclusion of its reports, valuation certificate, letters and/or opinions and summaries of opinion (as the case may be) and/or the references to its name included herein in the form and context in which it appears.

Save as disclosed in this document, none of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Binding Effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44E of the Hong Kong Companies Ordinance so far as applicable.

Miscellaneous

Save as disclosed in this document:

- (i) within the two years preceding the date of this document, neither we nor our subsidiaries have issued or agreed to issue any of our Shares or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (ii) no Share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) we have not issued nor agreed to issue any founder shares, management shares or deferred shares;
- (iv) within the two years preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our company or any of our subsidiaries; and
- (v) we have no outstanding convertible debt securities or debentures.