經驗五十載
齊創新未來

PME GROUP LIMITED

必美宜集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 379

Annual Report **2007**

Contents

Corporate **Information**

EXECUTIVE DIRECTORS

Mr. Cheng Kwok Woo *(Chairman)*
Mr. Cheng Kwong Cheong
(Vice-Chairman and Chief Executive Officer)
Ms. Chan Shui Sheung Ivy
Ms. Yeung Sau Han Agnes

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chow Fu Kit Edward
Mr. Leung Yuen Wing
Mr. Soong Kok Meng

COMPANY SECRETARY

Mr. Li Chak Hung

AUTHORISED REPRESENTATIVES

Mr. Cheng Kwok Woo
Mr. Cheng Kwong Cheong

AUDIT COMMITTEE

Mr. Leung Yuen Wing *(Chairman)*
Mr. Chow Fu Kit Edward
Mr. Soong Kok Meng

REMUNERATION COMMITTEE

Mr. Leung Yuen Wing *(Chairman)*
Mr. Cheng Kwok Woo
Mr. Cheng Kwong Cheong
Mr. Chow Fu Kit Edward
Mr. Soong Kok Meng

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited
Fubon Bank (Hong Kong) Limited
Agricultural Bank of China, Humen Sub-branch

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th Floor, Unison Industrial Centre
Nos. 27-31 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

STOCK CODE

379

WEBSITE

http://www.pme8.com

Chairman's **Statement**

I am pleased to present to our shareholders the audited consolidated results of the Group for the year ended 31 December 2007.

RESULTS FOR THE YEAR

For the year 2007, the Group recorded a turnover of approximately HK$258.9 million and net loss attributable to shareholders amounted to approximately HK$28.8 million.

The Directors do not recommend payment of final dividend for the year ended 31 December 2007.

REVIEW OF THE YEAR

The Group's turnover for the year 2007 has moderately increased by 10.1% from approximately HK$235.2 million in 2006 to approximately HK$258.9 million. The loss for the year was approximately HK$28.8 million (2006: profit of HK$5.5 million).

The increase in turnover is mainly due to increase in sales in Mainland China and Hong Kong market. During the year, increase in raw materials prices and production overheads and the appreciation of Renminbi have increased the costs of good sold. Due to keen competition in the market, the Group is in difficulty to transfer the increased costs to its customers thus resulting a decrease in gross profit margin. The increase in administrative expenses also leads to the loss for the year.

During 2007, the Company has successfully raised HK$650 million from the market through placement of new shares and unlisted warrants of the Company. The funds raised have enhanced the capital base of the Company and provide strong resources for the Group to expand its core business and to explore new business opportunities in the future.

OUTLOOK

In 2008, the management foresee the prolonged increase in the production costs, especially the raw materials and labour costs, would continue. The Group will endeavour to accelerate profit in the coming year by keeping on cost control, continuously extending and developing PRC market, and raising its product prices moderately in order to offset the effect of increase in product costs. Despite the US sub-prime lending crisis which caused the slowdown of the global capital market, the management believes that the PRC market would not be greatly affected. We expect the dramatic growth of the PRC economy, and will keep looking for investment projects with potential appreciation in the PRC, in order to bring up return to shareholders in the coming year.

APPRECIATION

On behalf of the Board, I would like to express appreciation to all our staff for their continuous effort and contributions in 2007.

I also take this opportunity to thank our shareholders, customers, suppliers and business partners for your support and trust in the Group.

Cheng Kwok Woo
Chairman

Hong Kong, 28th April, 2008

Highlights of **the Year 2007**

Shanghai PME-XINHUA Polishing Materials Systems has commenced operations since March 2007.

Two research papers, titled "Web-based Polishing Process Planning using Data Mining Techniques" and "The Use of Taguchi Methods in Polishing for Quality Optimisation" were jointly published with the Department of Industrial and Manufacturing Systems Engineering of The University of Hong Kong in 2007.

50th Anniversary Gala Dinner was held in Dongguan in November 2007.

Management Discussion **and Analysis**

BUSINESS REVIEW AND FINANCIAL PERFORMANCE REVIEW

The Group is principally engaged in the manufacturing of polishing compounds and polishing wheels in Mainland China under its own brand name ***Pme*** and the trading of various branded industrial abrasive products. Over 90% of the Group's turnover was contributed from the markets in Hong Kong and the Pearl River Delta in Mainland China.

The Group's turnover for the year 2007 has moderately increased by 10.1% from approximately HK$235.2 million in 2006 to approximately HK$258.9 million. The loss for the year 2007 was approximately HK$28.8 million (2006: profit of HK$5.5 million).

The increase in turnover is mainly due to increase in sales in Mainland China and Hong Kong market. During the year, increase in raw materials prices and production overheads and the appreciation of Renminbi have increased the costs of good sold. Due to keen competition in the market, the Group is in difficulty to transfer the increased costs to its customers thus resulting a decrease in gross profit margin. The increase in administrative expenses also leads to the loss for the year.

During 2007, the Company has successfully raised HK$650 million from the market through placement of new shares and unlisted warrants of the Company. The funds raised have enhanced the capital base of the Company and provide strong resource for the Group to expand its core businesses and to explore new business opportunities in the future.

LIQUIDITY AND FINANCIAL RESOURCES

On 31st December, 2007, the Group had interest-bearing bank borrowings of approximately HK$20.9 million (31st December, 2006: HK$19.5 million), which were of maturity within one year. The directors expect that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continue to provide funding to the Group's operations. At 31st December, 2007, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$82.1 million (31st December, 2006: HK$79.1 million) have been pledged to banks to secure the banking facilities granted to the Group.

On 31st December, 2007, current assets of the Group amounted to approximately HK$486.0 million (31st December, 2006: HK$138.7 million). The Group's current ratio was approximately 12.9 as at 31st December, 2007 as compared with 4.5 as at 31st December, 2006. At 31st December, 2007, the Group had total assets of approximately HK$917.0 million (31st December, 2006: HK$275.3 million) and total liabilities of approximately HK$41.1 million (31st December, 2006: HK$34.5 million), representing a gearing ratio (measured as total liabilities to total assets) of 4.5% as at 31st December, 2007 as compared with 12.5% as at 31st December, 2006.

FOREIGN EXCHANGE EXPOSURES

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are either in Hong Kong dollars or Renminbi. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates.

Management Discussion and Analysis (Continued)

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31st December, 2007 and 31st December, 2006.

CAPITAL COMMITMENTS

The Group has no capital commitment as at 31 December 2007.

On 29 September 2006, the Group entered a joint venture agreement with a third party to establish a joint venture in which the Group will invest approximately HK$5,830,000 which was completed during the year.

OUTLOOK

In 2008, the management foresee the prolonged increase in the production costs, especially the raw materials and labour costs, would continue. The Group will endeavour to accelerate profit in the coming year by keeping on cost control, continuously extending and developing PRC market, and raising product prices moderately in order to offset the effect of increase in the product costs. Despite the US sub-prime lending crisis which has caused the slowdown of the global capital market, the management believes that PRC market would not be greatly affected. We expect the dramatic growth of the PRC economy, and will keep looking for investment projects with potential appreciation in the PRC, in order to bring up return to shareholders in the coming years.

EMPLOYEES AND REMUNERATION

On 31st December, 2007, the Group had approximately 230 employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group.

Corporate **Governance Report**

CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance of the Company is crucial to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2007.

THE BOARD OF DIRECTORS

The Board comprises four Executive Directors and three Independent Non-Executive Directors ("INEDs"). The brief biographic details of and the relationship among Board members is set out in the Directors' and Senior Management's Profiles on pages 11 and 12. The Board has established three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee. Attendance of the Board Meetings and the meetings of the Board Committees is given below and their respective responsibilities are discussed later in this report:

	No. of meetings attended/eligible to attend			
	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Cheng Kwok Woo	8/8		1/1	1/1
Cheng Kwong Cheong	8/8			1/1
Cheng Wai Ying (resigned on 31st October, 2007)	6/6			
Chow Yin Kwang (resigned on 31st October, 2007)	5/6			
Chan Yim Fan (resigned on 31st October, 2007)	5/6			
Chan Shui Sheung Ivy (appointed on 2nd May, 2007)	6/6			
Yeung Sau Han Agnes (appointed on 2nd May, 2007)	6/6			
Non-Executive Director				
Zheng Jin Hong (resigned on 11th July, 2007)	1/5			
Independent Non-Executive Directors				
Anthony Francis Martin Conway (retired on 1st October, 2007)	5/6	1/2	1/1	1/1
Leung Yuen Wing	8/8	2/2	1/1	1/1
Lam Hon Ming Edward (resigned on 11th July, 2007)	5/5	1/1		1/1
Soong Kok Meng (appointed on 11th July, 2007)	2/3	1/1		
Chow Fu Kit Edward (appointed on 17th August, 2007)	2/3	0/1		

Corporate Governance Report (Continued)

The Board sets the Group's objectives and strategies and monitors its performance. The Board also decides on matters such as annual and interim results, major transactions, director appointments, and dividend and accounting policies and monitors the internal controls of the Group's business operation. The Board has delegated the authority and responsibility of overseeing the Group's day to day operations to management executives.

All Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company in discharge of their duties.

The Board held meetings from time to time whenever necessary. Notice of at least 14 days has been given to all Directors for all regular board meetings and the Directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular board meetings are sent out in full to all directors within reasonable time before the meeting. Draft minutes of all board meetings are circulated to Directors for comment within a reasonable time prior to confirmation.

Minutes of board meetings and meetings of Board Committees are kept by duly appointed secretaries of the respective meetings and all Directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Details of the Chairman, Mr. Cheng Kwok Woo, and Chief Executive Officer, Mr. Cheng Kwong Cheong, are set out in the Directors' and Senior Management's Profiles. The roles of the Chairman and the Chief Executive Officer were segregated throughout the financial year.

NON-EXECUTIVE DIRECTORS

The Board currently has three INEDs, one of whom holds appropriate professional qualifications, or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. All INEDs of the Company have been appointed for a specific term and are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

Each of the INEDs has given the Company an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all INEDs are independent and meet the independence guidelines set out in Rule 3.13 of the Listing Rules.

REMUNERATION COMMITTEE

The Company has set up a Remuneration Committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of Directors and senior management. The Remuneration Committee comprises the Board's Chairman, Mr. Cheng Kwok Woo, Chief Executive Officer, Mr. Cheng Kwong Cheong and three INEDs, namely Mr. Leung Yuen Wing, Mr. Soong Kok Meng and Mr. Chow Fu Kit Edward. The Remuneration Committee is chaired by Mr. Leung Yuen Wing.

During the year, one Remuneration Committee meeting was held to review the remuneration packages of the Directors. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration. The terms of reference of the Remuneration Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

Corporate Governance Report (Continued)

NOMINATION COMMITTEE

The Company has set up a Nomination Committee to ensure fair and transparent procedures for the appointment, re-election and removal of Directors to the Board. The Nomination Committee comprises the Board's Chairman, Mr. Cheng Kwok Woo and two INEDs, namely Mr. Leung Yuen Wing and Mr. Chow Fu Kit Edward. The Nomination Committee is chaired by Mr. Cheng Kwok Woo.

During the year, one Nomination Committee meeting was held to discuss appointment of Directors. In selecting and recommending candidates for directorship, the Committee will consider the experience, qualification and suitability of the candidates. The Board will approve the recommendations based on the same criteria. During the year, four new members have been appointed to the Board, five members resigned and one member retired. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

AUDIT COMMITTEE

The Audit Committee comprises three INEDs, namely Mr. Leung Yuen Wing, Mr. Soong Kok Meng and Mr. Chow Fu Kit Edward. The Audit Committee is chaired by Mr. Leung Yuen Wing.

The principal duties of the Audit Committee are to review and provide supervision over the financial reporting process and internal controls of the Group. During the year, two Audit Committee meetings were held to review the financial reporting matters of the Group and the internal control system of the Group. The terms of reference of the Audit Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the Directors. Following a specific enquiry, all Directors confirmed they have complied with the standards set out in the Model Code throughout the year ended 31 December 2007.

To comply with the code provisions A.5.4 of the CG Code, the Company has also established and adopted the Model Code as the code of conduct for securities transactions by Relevant Employees to regulate the dealings in the securities of the Company by certain employees of the Group who are considered to be likely in possession of unpublished price sensitive information of the Company.

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibility for preparing the financial statements of the Group. As at 31st December, 2007, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

To ensure implementation of an effective and sound internal control system, an Internal Control Committee ("ICC") has been established. The major tasks of ICC are to review the effectiveness of the internal control systems of the Group and to make recommendations for improvement, especially in financial, operational, compliance controls and risk management. The ICC is chaired by Mr. Cheng Kwong Cheong.

Corporate Governance Report (Continued)

During the year, one ICC meeting was held, reviewing the effectiveness of the internal control system and assessing the business contingency planning of the Group. For the year under review, the Board considered that the Group's internal control systems are adequate and effective and the Group has complied with the code provisions on internal control of the CG Code.

AUDITOR'S REMUNERATION

For the year ended 31st December, 2007, the Company's auditor, Deloitte Touche Tohmatsu, provided audit services as well as non-audit services to the Group. The remuneration paid/payable to the auditor is set out below:

Services rendered	**Fees paid/payable**
	HK$'000
Audit services	1,330
Non-audit services	520
	1,850

The statement of the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 19 and 20.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 28th April, 2008

Directors' and Senior Management's Profiles

DIRECTORS

Executive Directors

Mr. Cheng Kwok Woo, aged 51, is the Chairman of the Group. He joined the Group in 1990 and is responsible for strategic planning, business development and Board issues of the Group. He has over 20 years experience in the trading and manufacturing of abrasive products. Mr. K.W. Cheng is the brother of Mr. Cheng Kwong Cheong.

Mr. Cheng Kwong Cheong, aged 47, is the Vice-Chairman and Chief Executive Officer of the Group. He joined the Group in 1990 and is responsible for overall operations and development of the Group. He has over 20 years experience in the trading and manufacturing of abrasive products. Mr. K.C. Cheng is the brother of Mr. Cheng Kwok Woo.

Ms. Chan Shui Sheung Ivy, aged 44, joined the Group in May 2007 and is responsible for business development of the Group. She holds a Master degree of Business Administration from the University of South Australia. She has over 15 years experience in investment. She is also an executive director of ZZNode Technologies Company Limited, which is listed on the Stock Exchange.

Ms. Yeung Sau Han Agnes, aged 42, joined the Group in May 2007 and is responsible for business development of the Group. She graduated from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) with a higher diploma in fashion design. She is also an executive director of B M Intelligence International Limited and Tiger Tech Holdings Limited, both are listed on the Stock Exchange.

Independent Non-executive Directors

Mr. Chow Fu Kit Edward, aged 41, was appointed as an independent non-executive director in August 2007. He has over 10 years experience in power industry and is specialised in business strategy development and change management for power company. He holds a Master degree of Engineering in Mechanical Engineering from The University of Hong Kong and a Master degree of Business Administration from The Chinese University of Hong Kong. He is a Chartered Engineer, Member of Institution of Mechanical Engineers and The Hong Kong Institution of Engineers.

Mr. Leung Yuen Wing, aged 41, was appointed as an independent non-executive director in September 2004. He had held managerial positions in various renowned accounting firms, an investment bank and a listed company. Currently he holds a senior managerial position in a multinational group engaged in the mining, production and trading of mineral resources including coal, coke and iron ore. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants.

Mr. Soong Kok Meng, aged 45, was appointed as an independent non-executive director in July 2007. He has over 15 years sales and marketing experience. He graduated from Singapore Polytechnic with an advanced diploma in plastic technology and holds a Master degree of Science from University of Manchester Institute of Science and Technology.

Directors' and Senior Management's Profiles (Continued)

SENIOR MANAGEMENT

Mr. Chow Yin Kwang, aged 69, is the project director of the Group. He is responsible for the project development and quality management of the Group. He has over 10 years of experience in the Group's project development, operation and quality management. Before joining the Group, Mr. Chow had more than 30 years of experience in operation management.

Ms. Cheng Wai Ying, aged 49, is the financial controller of the Group and is responsible for the financial management of the Group. She has over 20 years of experience in financial management and business operation management. Ms. Cheng is the sister of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

Ms. Chan Yim Fan, aged 57, is the logistics director of the Group. She is responsible for the logistics of the Group including product supply, delivery, storage, and raw materials as well as trading product procurement. She has over 20 years of experience in logistics management.

Mr. Fong Siu Chung, aged 46, is the marketing development manager of the Group. He joined the Group in 1996 and is responsible for market and product development of the Group. He holds a Bachelor degree from National Chengchi University of Taiwan.

Mr. Tam Kwok Kuen, aged 44, is the sales administration manager of the Group. He joined the Group in 2003 and is responsible for the sales services affairs of the Group. He holds a Master degree of Business Administration from Royal Melbourne Institute of Technology University, Australia. Before joining the Group, he had worked in HSBC Group. He has more than 17 years experience in the field of international trade.

Mr. Wong Wai Hung, aged 50, is the production manager of the Group. He joined the Group in 1998 and is responsible for the production and factory management of the Group. He graduated from the Hong Kong Polytechnic (now known as Hong Kong Polytechnic University). He has over 20 years experience in the manufacturing industry.

Mr. Tsang Lok Chuen, aged 59, is the logistics manager of the Group. He joined the Group in 1990 and is responsible for product delivery and transportation of the Group. He has more than 20 years experience in logistics management.

Mr. Lee Kam Wing, aged 42, is the information technology manager of the Group. He joined the Group in 1992 and is responsible for the management of system operations and network infrastructure of the Group. He holds a Bachelor degree of Science in Computing and Networking from The Open University of Hong Kong. Before joining the Group, he had worked in the information technology sector of various listed companies in Hong Kong for 10 years.

Ms. Yip Chui Ling, aged 32, is the corporate planning analyst of the Group. She joined the Group in 2003 and is responsible for corporate planning and compliance affairs of the Group. She is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. She holds a Master degree of Business Administration from The Chinese University of Hong Kong.

Report of **the Directors**

The directors of the Company have pleasure in presenting their annual report and the audited financial statements of the Group for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

Details of the activities of the principal subsidiaries of the Company are set out in note 42 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31st December, 2007 is set out in note 8 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 21 of the annual report.

The directors do not recommend payment of final dividend for the year ended 31st December, 2007.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 70 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year together with the reasons therefore and up to the date of this report are set out in note 32 to the financial statements.

Report of the Directors (Continued)

SHARE PREMIUM AND RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

At the balance sheet date, in the opinion of the directors, the Company's share premium and reserves available for distribution to shareholders amounted to HK$852,987,000.

Movement in the share premium and reserves of the Group during the year are set out on page 23 of the annual report.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purposes to enable the directors of the Company to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group. Summary of the terms of the share option scheme are set out in note 33 the financial statements.

During the year, 30,000,000 options have been granted under the share option scheme to certain directors of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers taken together accounted for less than 30 per cent of the Group's total turnover for the year.

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 11.5 per cent and 35.4 per cent respectively of the Group's total purchases for the year.

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

RELATED PARTY TRANSACTIONS

Related party transactions during the year are disclosed in note 40 to the financial statements.

USE OF PROCEEDS

In April 2007, the Company placed 191,600,000 new shares at HK$0.172 per share. The net proceeds from the placement of new shares, after deducting the professional fees and all related expenses, amounted to approximately HK$32.1 million had been applied as general working capital of the Group.

In April 2007, the Company placed 220,000,000 unlisted warrants at an issue price of HK$0.046 per warrant. Net proceeds from placement of the unlisted warrants, after deducting the professional fees and all related expenses amounted to approximately HK$9.8 million. Each of the unlisted warrants entitled the warrant holder to subscribe for one new share of the Company at a subscription price of HK$0.25 per share. All unlisted warrants have been exercised during the year and proceeds from issue of new shares upon exercise of the unlisted warrants amounted to HK$55.0 million. Net proceeds from issue of unlisted warrants and issue of new shares on exercise of the warrants totaling approximately HK$64.8 million had been applied as general working capital of the Group.

In July 2007, the Company placed 229,000,000 new shares at HK$2.49 per share. Net proceeds from placement of 229,000,000 new shares, after deducting the professional fees and all related expenses, amounted to approximately HK$553 million had been applied as general working capital of the Group.

DIRECTORS

The directors of the Company during the year ended 31st December 2007 and up to the date of this report were:

Executive directors

Mr. Cheng Kwok Woo, *Chairman*	
Mr. Cheng Kwong Cheong, *Vice-Chairman and CEO*	
Mr. Yeung San Han Agnes	(appointed on 2nd May, 2007)
Ms. Chan Shui Sheung Ivy	(appointed on 2nd May, 2007)
Mr. Chow Yin Kwang	(resigned on 31st October, 2007)
Ms. Cheng Wai Ying	(resigned on 31st October, 2007)
Ms. Chan Yim Fan	(resigned on 31st October, 2007)

Non-executive director

Mr. Zheng Jin Hong	(resigned on 11th July, 2007)

Independent non-executive directors

Mr. Leung Yuen Wing	
Mr. Soong Kok Meng	(appointed on 11th July, 2007)
Mr. Chow Fu Kit Edward	(appointed on 17th August, 2007)
Mr. Anthony Francis Martin Conway	(retired on 1st October, 2007)
Mr. Lam Hon Ming Edward	(resigned on 11th July, 2007)

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Mr. Leung Yuen Wing shall retire from offices by rotation in the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

The biographic details of the directors are set out on page 11 of the annual report.

Report of the Directors (Continued)

DIRECTORS' SERVICES CONTRACTS

Each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong has entered into a service agreement with the Company for an initial term of three years commencing from 1st October, 2002, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the directors have any interest in competing business to the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31st December, 2007, the directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code:

Long positions in the ordinary shares of the Company:

	Number of shares/underlying shares held			
Directors	**Personal interests**	**Corporate interests**	**Total interests**	**Percentage of interests**
Mr. Cheng Kwok Woo	54,400,000	318,438,000 *(note)*	372,838,000	23.32%
Mr. Cheng Kwong Cheong	54,400,000	318,438,000 *(note)*	372,838,000	23.32%
Ms. Chan Shui Sheung Ivy	15,000,000	–	15,000,000	0.94%
Ms. Yeung Sau Han Agnes	15,000,000	–	15,000,000	0.94%

Note: These shares are held by PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands (the "BVI"). Each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong beneficially own one-third of the entire issued share capital of PME Investments.

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

Report of the Directors (Continued)

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding company or subsidiaries a party to any arrangement to enable the directors or chief executive to acquire such rights in any other corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2007, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules, the following persons were interested (including short positions) in the shares of underlying shares of the Company:

Long positions in the ordinary shares of the Company:

Name	*Notes*	Number of shares held	Percentage of interests
PME Investments	*1*	318,438,000	19.92%
Mr. Cheng Kwok Woo	*2*	372,838,000	23.32%
Mr. Cheng Kwong Cheong	*2*	372,838,000	23.32%
Ms. Cheng Wai Ying	*2*	352,838,000	22.07%
Ms. Tsang Sui Tuen	*3*	372,838,000	23.32%
Ms. Wan Kam Ping	*4*	372,838,000	23.32%
Mr. Cheng Yau Kuen	*5*	352,838,000	22.07%

Notes:

1. PME Investments is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

2. Each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong personally holds 54,400,000 shares of the Company. Ms. Cheng Wai Ying personally holds 34,400,000 shares of the Company. Each of them is further beneficially interested in one-third of PME Investments and is accordingly deemed to be interested in the entire interests of PME Investments in the Company.

3. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interest in 372,838,000 shares of the Company that Mr. Cheng Kwok Woo has interest in.

4. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interest in 372,838,000 shares of the Company that Mr. Cheng Kwong Cheong has interest in.

5. Mr. Cheng Yau Kuen is the spouse of Ms. Cheng Wai Ying and is accordingly deemed to have interest in 352,838,000 shares of the Company that Ms. Cheng Wai Ying has interest in.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31st December, 2007.

Report of the Directors (Continued)

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 7 to 10 of the annual report.

PUBLIC FLOAT

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

AUDITOR

A resolution to reappoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Cheng Kwong Cheong
Vice-Chairman & CEO

Hong Kong, 28th April, 2008

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF PME GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of PME Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 69, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report (Continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 28th April, 2008

Consolidated Income Statement

For the year ended 31st December, 2007

	Notes	**2007** *HK$'000*	2006 *HK$'000*
Turnover	*7*	**258,884**	235,226
Cost of sales		**(222,819)**	(191,859)
Gross profit		**36,065**	43,367
Other income, gain and loss	*9*	**5,522**	2,597
Selling and distribution expenses		**(11,603)**	(12,367)
Administrative expenses		**(57,099)**	(25,902)
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement		**–**	320
Share of loss of a jointly controlled entity		**(154)**	–
Finance costs	*10*	**(2,027)**	(1,348)
(Loss) profit before taxation		**(29,296)**	6,667
Taxation	*13*	**556**	(1,165)
(Loss) profit for the year	*14*	**(28,740)**	5,502
Attributable to:			
Equity holders of the Company		**(28,796)**	5,504
Minority interests		**56**	(2)
		(28,740)	5,502
Dividends	*15*	**–**	1,274
(Loss) earnings per share	*16*		
Basic		**HK(2.20) cents**	HK0.57 cents

Consolidated Balance Sheet

At 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-Current Assets			
Property, plant and equipment	17	125,105	122,499
Prepaid lease payments	18	10,450	10,214
Available-for-sale investments	19	285,471	–
Deposits placed with an insurer	20	3,737	3,559
Interest in a jointly controlled entity	21	5,829	–
Club debentures		350	350
		430,942	136,622
Current Assets			
Inventories	22	31,570	27,672
Debtors, deposits and prepayments	23	83,619	76,732
Amount due from a jointly controlled entity	24	332	–
Loan receivables	27	4,730	7,400
Prepaid lease payments	18	268	249
Taxation recoverable		52	940
Deposits placed with a financial institution	25	200,451	–
Bank balances and cash	26	164,967	25,704
		485,989	138,697
Current Liabilities			
Creditors and accruals	28	15,523	10,671
Taxation payable		1,186	682
Obligations under a finance lease	29	67	61
Bank loans	30	20,884	19,467
		37,660	30,881
Net Current Assets		448,329	107,816
Total Assets Less Current Liabilities		879,271	244,438
Non-Current Liabilities			
Obligations under a finance lease	29	206	–
Deferred taxation	31	3,203	3,604
		3,409	3,604
		875,862	240,834
Capital and Reserves			
Share capital	32	15,986	9,580
Share premium and reserves		859,565	230,999
Equity attributable to equity holders of the Company		875,551	240,579
Minority interests		311	255
		875,862	240,834

The financial statements on pages 21 to 69 were approved and authorised for issue by the Board of Directors on 28th April, 2008 and are signed on its behalf by:

CHENG KWONG CHEONG
Director

CHAN SHUI SHEUNG IVY
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007

	Attributable to equity holders of the Company											
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note)	Translation reserve HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Other reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2006	9,580	202,296	(38,581)	1,022	–	6,456	(642)	–	55,621	235,752	248	236,000
Exchange difference arising on translation of foreign operations	–	–	–	1,938	–	–	–	–	–	1,938	9	1,947
Revaluation decrease on buildings	–	–	–	–	–	(3,129)	–	–	–	(3,129)	–	(3,129)
Reversal of deferred tax arising on revaluation on buildings	–	–	–	–	–	1,146	–	–	–	1,146	–	1,146
Transfer to gain on disposal of available-for-sale investments	–	–	–	–	–	–	642	–	–	642	–	642
Net income (expense) recognised directly in equity	–	–	–	1,938	–	(1,983)	642	–	–	597	9	606
Profit (loss) for the year	–	–	–	–	–	–	–	–	5,504	5,504	(2)	5,502
Total recognised income and expense for the year	–	–	–	1,938	–	(1,983)	642	–	5,504	6,101	7	6,108
Dividends paid	–	–	–	–	–	–	–	–	(1,274)	(1,274)	–	(1,274)
At 31st December, 2006	9,580	202,296	(38,581)	2,960	–	4,473	–	–	59,851	240,579	255	240,834
Exchange difference arising on translation of foreign operations	–	–	–	**2,030**	–	–	–	–	–	**2,030**	–	**2,030**
Revaluation increase on available–for-sale investment	–	–	–	–	–	–	**1,405**	–	–	**1,405**	–	**1,405**
Revaluation increase on buildings	–	–	–	–	–	**3,426**	–	–	–	**3,426**	–	**3,426**
Deferred tax arising on revaluation on buildings	–	–	–	–	–	**(723)**	–	–	–	**(723)**	–	**(723)**
Net income recognised directly in equity	–	–	–	**2,030**	–	**2,703**	**1,405**	–	–	**6,138**	–	**6,138**
(Loss) profit for the year	–	–	–	–	–	–	–	–	**(28,796)**	**(28,796)**	**56**	**(28,740)**
Total recognised income and expense for the year	–	–	–	**2,030**	–	**2,703**	**1,405**	–	**(28,796)**	**(22,658)**	**56**	**(22,602)**
Recognition of equity-settled share based payment	–	–	–	–	**7,010**	–	–	–	–	**7,010**	–	**7,010**
Issue of shares upon placing	**4,206**	**598,959**	–	–	–	–	–	–	–	**603,165**	–	**603,165**
Share issue expenses	–	**(17,363)**	–	–	–	–	–	–	–	**(17,363)**	–	**(17,363)**
Issue of warrants	–	–	–	–	–	–	–	**10,120**	–	**10,120**	–	**10,120**
Expenses incurred in connection with issue of warrants	–	–	–	–	–	–	–	**(302)**	–	**(302)**	–	**(302)**
Issue of shares upon exercises of warrants	**2,200**	**62,618**	–	–	–	–	–	**(9,818)**	–	**55,000**	–	**55,000**
At 31st December, 2007	**15,986**	**846,510**	**(38,581)**	**4,990**	**7,010**	**7,176**	**1,405**	–	**31,055**	**875,551**	**311**	**875,862**

Note: Special reserve represented the difference between the nominal amount of the share capital issued by PME International (BVI) Company Limited, the then holding company of the Group, and the aggregate of the nominal amount of the issued share capital and other reserves accounts of the subsidiaries which was acquired by PME International (BVI) Company Limited pursuant to the group reorganisation carried out in 1997.

Consolidated Cash Flow Statement

For the year ended 31st December, 2007

	Notes	2007 HK$'000	2006 HK$'000
Operating activities			
(Loss) profit before taxation		**(29,296)**	6,667
Adjustments for:			
Loss on disposal of a subsidiary		**186**	–
Loss on assignment of other loans and interest receivable		**531**	–
Share of loss of a jointly controlled entity		**154**	–
Interest income		**(2,299)**	(579)
Imputed interest income on deposits placed with an insurer		**(178)**	(485)
Depreciation of property, plant and equipment		**7,810**	6,937
Release of prepaid lease payments		**268**	249
Finance costs		**2,027**	1,348
(Gain) loss on disposals of property, plant and equipment		**(249)**	248
Gain on derecognition of available-for-sale investments		**–**	(83)
Reversal of revaluation decrease on leasehold land and buildings previously charged to consolidated income statement		**–**	(320)
Share-based payments		**7,010**	–
Allowance for doubtful debts		**4,618**	1,003
Allowance for obsolete inventories		**1,885**	–
Effect of foreign exchange		**(2,918)**	(2,229)
Operating cash flows before movements in working capital		**(10,451)**	12,756
Increase in deposits placed with a financial institution		**(200,451)**	–
(Increase) decrease in inventories		**(5,340)**	4,199
Increase in debtors, deposits and prepayments		**(11,397)**	(12,005)
Increase in amount due from a jointly controlled entity		**(332)**	–
Increase in creditors and accruals		**4,723**	263
Cash (used in) generated from operations		**(223,248)**	5,213
Income tax refunded		**951**	318
Income tax paid		**(131)**	(580)
Net cash (used in) generated from operating activities		**(222,428)**	4,951
Investing activities			
Interest received		**780**	579
Proceeds on derecognition of available-for-sale investments		**–**	5,014
Investment in a jointly controlled entity		**(5,983)**	–
Purchases of property, plant and equipment		**(3,771)**	(10,620)
Purchases of available-for-sale investments		**(284,066)**	(2,910)
Advances of loan receivables		**(4,730)**	(7,400)
Repayments of loan receivables		**7,400**	6,105
Proceeds from disposal of property, plant and equipment		**1,186**	652
Acquisition of a subsidiary	*34*	**–**	–
Disposal of a subsidiary	*35*	**(17)**	–
Net cash used in investing activities		**(289,201)**	(8,580)

Consolidated Cash Flow Statement (Continued)

For the year ended 31st December, 2007

	2007	2006
	HK$'000	*HK$'000*
Financing activities		
New bank loans raised	**25,370**	21,502
Proceeds from placing of new shares	**603,165**	–
Share issue expenses for placing	**(17,363)**	–
Proceeds from issues of warrants	**10,120**	–
Expenses incurred in connection with issue of warrants	**(302)**	–
Proceeds from issue of shares upon exercises of warrants	**55,000**	–
Repayments of bank loans	**(24,193)**	(14,474)
Repayments of obligations under a finance lease	**(88)**	(174)
Interest paid	**(1,028)**	(1,340)
Finance lease charges paid	**(11)**	(8)
Dividends paid	**–**	(1,274)
Net cash generated from financing activities	**650,670**	4,232
Net increase in cash and cash equivalents	**139,041**	603
Cash and cash equivalents at beginning of the year	**25,704**	24,901
Effect of foreign exchange rate changes	**222**	200
Cash and cash equivalents at end of the year		
represented by bank balances and cash	**164,967**	25,704

Notes to the Financial Statements

For the year ended 31st December, 2007

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information on the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 42.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

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

[1] Effective for annual periods beginning on or after 1st January, 2009

[2] Effective for annual periods beginning on or after 1st July, 2009

[3] Effective for annual periods beginning on or after 1st March, 2007

[4] Effective for annual periods beginning on or after 1st January, 2008

[5] Effective for annual periods beginning on or after 1st July, 2008

The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the result and the financial position of the Group except for the adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company are in the process of assessing the potential impact and so far concluded that the application of the other new and revised standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

Business combinations

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

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

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

Jointly controlled entities

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised 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 rates 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 carrying amount.

Dividend income from investments is recognised when the Group rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment other than leasehold land and buildings are stated at cost less accumulated depreciation and any accumulated impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, as follows:

Leasehold land and building	Over the shorter of the term of leases or 50 years
Plant and machinery	10 years
Other property, plant and equipment	3 to 5 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Prepaid lease payments

Prepaid lease payments are stated at cost less subsequent accumulated amortisation and any accumulated impairment losses. The costs of prepaid lease payments are amortised on a straight-line basis over the relevant lease terms.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement 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 recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as finance lease and accounted for as property, plant and equipment.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet 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.

Financial assets

The Group's financial assets comprise of loans and receivables and available-for-sale financial assets.

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 each balance sheet date subsequent to initial recognition, loans and receivables (including amount due from a jointly controlled entity, debtors, deposits placed with an insurer and a financial institution, loan receivables and bank balances) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on 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. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred 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 loans and receivables, objective evidence of impairment could include:

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

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade debtors, 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 amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors, where the carrying amount is reduced through the use of an allowance account. When a trade debtor 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 amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit and loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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 recognised 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 definition of a financial liability and a 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 accounting policies adopted in respect of financial liabilities are set out below.

Effective interest method

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

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities

Financial liabilities (including creditors and bank loans) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

Intangible assets

Intangible assets (including club debenture) with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Impairment losses on tangible assets and intangible asset

At each balance sheet date, 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. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. 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. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items 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 recognised in profit or loss in the period in which they arise, except for exchange difference arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

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

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

Retirement benefits costs

Payments to the defined contribution retirement benefits schemes are charged as an expense as when employees have rendered service entitling them to the contribution.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future in preparing accounting estimates. The resulting accounting estimates may not equal to the actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as below.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. When the actual useful lives of property, plant and equipment due to the change of commercial environment are different from their estimated useful lives, such difference will impact the deprecation charges and the amounts of assets written down for future periods.

Estimated allowance of doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other debtors. Allowances are applied to trade and other debtors where events or change in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the present value of estimated future cash flows discounted at the original effective interest rate is lower than the carrying amount, such difference represents allowance for doubtful debts recognised as expense in the consolidated income statement. When the actual future cash flows are less than the expected, a material impairment loss may arise.

Estimated allowance of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and usefulness of the inventories.

5. 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 maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank loans disclosed in note 30, and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the new share issues and the issue of new debt or the redemption of existing debt.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables	**442,027**	100,778
Available-for-sale financial assets	**285,471**	–
Financial liabilities		
Amortised cost	**27,692**	24,924

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, deposits placed with an insurer and a financial institution, loan receivables, amount due from a jointly controlled entity, bank balances, bank loans, debtors and creditors. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk, fair value and cash flow interest rate risk and other price risk), credit risk and liquidity risk 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.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk. The directors closely review and monitor the Group's exposure to each of these risks, which are discussed below.

(i) Market risk

Currency risk

Several group entities have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 54% (2006: 41%) of the Group's purchase are denominated in currencies other than the functional currency of the group entity. The Group also has bank balances, creditors and bank loans denominated in foreign currencies. Since the fluctuation of Hong Kong dollar and United States dollar are minimal under the Linked Exchange Rate System, the management consider the Group mainly expose to the currency of Euro and Japanese Yen.

The Group manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(i) *Market risk* (Continued)

Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities, at the reporting dates are as follows:

	2007	2006
	HK$'000	*HK$'000*
Assets		
United States dollars	**99,439**	461
Japanese Yen	**18**	263
Euro	**904**	–
	100,361	724
Liabilities		
United States dollars	**6,453**	5,782
Japanese Yen	**11,153**	8,416
Euro	**2,263**	238
	19,869	14,436

Sensitivity analysis

The Group is mainly exposed to Japanese Yen and Euro only, as United States dollar is pegged to Hong Kong dollar.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% change in foreign currency rates. A positive number indicates an decrease in loss/increase in profit for the year when Hong Kong dollar strengthens against the relevant foreign currencies. For a 5% weakening of Hong Kong dollar against the relevant currency, there would be an equal but opposite impact on the (loss) profit for the year.

	2007	2006
	HK$'000	*HK$'000*
Japanese Yen		
(Loss) profit for the year	**557**	408
Euro		
(Loss) profit for the year	**68**	12

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(i) ***Market risk*** (Continued)

Fair and cash flow interest rate risk

The Group has significant loan receivables, deposits placed with a financial institution, bank balances, bank and other borrowings which bear interest rate risk. Loan receivables, deposits placed with a financial institution and bank loans at variable rates expose the Group to cash flow interest-rate risk. Bank balances and borrowings at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk.

Sensitivity analysis

At the balance sheet dates, assuming the variable rate deposits placed with a financial institution, bank balances, and bank borrowings outstanding at the balance sheet dates had been outstanding for the whole year, if interest rates had increased by 200 basis points and all other variables were held constant, there was a decrease in loss by approximately HK$3,773,000 (2006: decrease in profit by approximately HK$157,000). If interest rates had decreased by 200 basis points, there would be an equal but opposite impact on the (loss) profit for the year. A 200 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate interest bearing financial assets, such as deposits placed with a financial institution and bank balances.

Equity price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The Group has appointed a special team to monitor the price risk by diversifying the investment portfolio in the future.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risks at the reporting date. If the prices of the respective equity instruments had been 5% higher/lower, investment revaluation reserve would increase/decrease by HK$14,274,000 (2006: nil) for the Group as a result of the changes in fair value of available-for-sale investments.

(ii) ***Credit risk***

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st December, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, as the trade debtors spread over a number of counterparties and customers. No single debtor outstanding at the balance sheet dates exceeds 8% of the total balance of trade debtors.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(ii) Credit risk (Continued)

The Group has significant concentration of credit risk arising from a deposit placed with a financial institution as at 31st December, 2007.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

(iii) Liquidity risk

The Group's liquidity position is monitored closely by the management of the Group. The Group relies on bank borrowings as a significant source of liquidity. Details of the Groups' bank loans are set out in Note 30. The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities in accordance with the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	0-60 days	61-90 days	91-180 days	181-365 days	1-2years	Total undiscounted cash flows	Carrying amounts
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31st December, 2007								
Trade creditors	**–**	**4,611**	**1,893**	**31**	**–**	**–**	**6,535**	**6,535**
Obligations under a finance lease	**9.24%**	**16**	**8**	**24**	**48**	**226**	**322**	**273**
Bank loans	**7.13%**	**3,741**	**1,319**	**7,597**	**8,890**	**–**	**21,547**	**20,884**
		8,368	**3,220**	**7,652**	**8,938**	**226**	**28,404**	**27,692**
As at 31st December, 2006								
Trade creditors	–	5,196	154	46	–	–	5,396	5,396
Obligations under a finance lease	2.28%	30	16	16	–	–	62	61
Bank loans	7.13%	3,402	2,831	5,506	8,280	–	20,019	19,467
		8,628	3,001	5,568	8,280	–	25,477	24,924

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

7. TURNOVER

Turnover represents the amounts received and receivable from the manufacture of abrasive products, polishing compounds and polishing wheels, trading of polishing materials and polishing equipment, provision of technical consultancy service and interest income, net of allowances and returns, during the year.

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

In current year, the Group entered into investment business, of which the principal activities are investments in securities and exploring investment opportunities for long-term purpose.

For management purposes, the Group is currently organised into four (2006: three) operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing	–	manufacture of abrasive products, polishing compounds and polishing wheels
Trading	–	trading of polishing materials and polishing equipment
Technical service	–	provision of technical consultancy service
Investment	–	investments in trading equity securities and long-term strategic investment

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below.

Income statement for the year ended 31st December, 2007

	Manufacturing	Trading	Technical service	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
External sales	**130,081**	**116,183**	**413**	**12,207**	**258,884**
Result					
Segment result	**(10,225)**	**(6,240)**	**(452)**	**(11,208)**	**(28,125)**
Unallocated corporate expenses					**(5,043)**
Other income					**6,053**
Share of loss of a jointly controlled entity	**(154)**	**–**	**–**	**–**	**(154)**
Finance costs					**(2,027)**
Loss before taxation					**(29,296)**
Taxation					**556**
Loss for the year					**(28,740)**

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Balance sheet at 31st December, 2007

	Manufacturing	Trading	Technical service	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets	**191,189**	**52,866**	**107**	**627,919**	**872,081**
Unallocated corporate assets					**44,850**
Consolidated total assets					**916,931**
Liabilities					
Segment liabilities	**7,175**	**4,699**	**18**	**3,504**	**15,396**
Unallocated corporate liabilities					**25,673**
Consolidated total liabilities					**41,069**

Other information

	Manufacturing	Trading	Technical service	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	**108**	**1,879**	**2**	**2,082**	**4,071**
Depreciation of property, plant and equipment	**5,973**	**1,689**	**7**	**141**	**7,810**
Release of prepaid lease payments	**268**	**–**	**–**	**–**	**268**
Allowance for doubtful debts	**3,312**	**501**	**805**	**–**	**4,618**
Allowance for obsolete inventories	**377**	**1,508**	**–**	**–**	**1,885**

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Income statement for the year ended 31st December, 2006

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Consolidated *HK$'000*
Turnover				
External sales	122,314	106,398	6,514	235,226
Result				
Segment result	5,708	3,862	891	10,461
Unallocated corporate expenses				(5,363)
Other income				2,597
Reversal of revaluation decrease on leasehold land and buildings previously charged to the income statement				320
Finance costs				(1,348)
Profit before taxation				6,667
Taxation				(1,165)
Profit for the year				5,502

Balance sheet at 31st December, 2006

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Consolidated *HK$'000*
Assets				
Segment assets	177,512	55,291	2,393	235,196
Unallocated corporate assets				40,123
Consolidated total assets				275,319
Liabilities				
Segment liabilities	6,299	4,120	252	10,671
Unallocated corporate liabilities				23,814
Consolidated total liabilities				34,485

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Other information

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Consolidated *HK$'000*
Capital expenditure	6,736	3,661	223	10,620
Depreciation of property, plant and equipment	5,309	1,484	144	6,937
Release of prepaid lease payments	249	–	–	249
Allowance for doubtful debts	522	451	30	1,003

Geographical segments

The Group's operations are located in Hong Kong and Mainland China. The Group's trading divisions are mainly located in Hong Kong and Mainland China. Manufacturing and technical service are carried out in Mainland China. Investment division is located in Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of customers:

	Turnover	
	2007	2006
	HK$'000	*HK$'000*
Hong Kong	**111,579**	97,316
Mainland China	**127,723**	118,367
Other Asian regions	**14,953**	15,462
North America and Europe	**2,065**	1,159
Other countries	**2,564**	2,922
	258,884	235,226

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**730,161**	108,122	**3,963**	254
Mainland China	**141,920**	127,074	**108**	10,366
	872,081	235,196	**4,071**	10,620

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

9. OTHER INCOME, GAIN AND LOSS

	2007	2006
	HK$'000	*HK$'000*
Interest income from banks	**92**	35
Interest income from loan receivables	**688**	544
Imputed interest income on deposits placed with an insurer	**178**	485
Net foreign exchange gains	**3,300**	558
Rental income	**575**	127
Gain on disposal of property, plant and equipment	**249**	–
Gain on derecognition of available-for-sale investments	**–**	83
Sundry income	**971**	765
Loss on assignment of other loans and interest receivable *(note 36(b))*	**(531)**	–
	5,522	2,597

10. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Finance costs comprise:		
Interests on bank borrowings wholly repayable within five years	**1,028**	1,340
Finance lease charges	**11**	8
Interest on other loans	**988**	–
	2,027	1,348

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the thirteen (2006: nine) directors were as follows:

2007

Name of Director	Notes	Fees	Salaries and other benefits	Performance related incentive payments	Share-based payments	Retirement benefits scheme contributions	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheng Kwok Woo		–	1,024	–	–	46	1,070
Cheng Kwong Cheong		–	1,019	–	–	46	1,065
Cheng Wai Ying	*a*	–	417	–	–	19	436
Chow Yin Kwang	*a*	–	626	–	–	29	655
Chan Yim Fan	*a*	–	309	–	–	14	323
Yeung Sau Han, Agnes	*b*	–	160	–	3,505	8	3,673
Chan Shui Sheung, Ivy	*b*	–	200	–	3,505	10	3,715
Zheng Jin Hong	*c*	50	–	–	–	–	50
Anthony Francis Martin Conway	*d*	90	–	–	–	–	90
Leung Yuen Wing		120	–	–	–	–	120
Lam Hon Ming, Edward	*c*	35	–	–	–	–	35
Soong Kok Meng	*e*	57	–	–	–	–	57
Chow Fu Kit, Edward	*f*	45	–	–	–	–	45
Total for the year 2007		397	3,755	–	7,010	172	11,334

2006

Name of Director	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheng Kwok Woo	–	1,071	–	48	1,119
Cheng Kwong Cheong	–	1,055	–	48	1,103
Cheng Wai Ying	–	501	–	24	525
Chow Yin Kwang	–	752	–	35	787
Chan Yim Fan	–	367	–	17	384
Zheng Jin Hong	50	–	–	–	50
Anthony Francis Martin Conway	120	–	–	–	120
Leung Yuen Wing	120	–	–	–	120
Lam Hon Ming, Edward	60	–	–	–	60
Total for the year 2006	350	3,746	–	172	4,268

No directors waived any emoluments in the years ended 31st December, 2007 and 2006.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

11. DIRECTORS' EMOLUMENTS (Continued)

Notes:

(a) Ms. Cheng Wai Ying, Mr. Chow Yin Kwang and Ms. Chan Yim Fan resigned as executive directors on 31st October, 2007.

(b) Ms. Yeung Sau Han, Agnes and Ms. Chan Shui Sheung, Ivy were appointed as executive directors on 2nd May, 2007.

(c) Mr. Zheng Jin Hong and Mr. Lam Hon Ming, Edward resigned as non-executive director and independent non-executive director respectively on 11th July, 2007.

(d) Mr. Anthony Francis Martin Conway retired as an independent non-executive director on 1st October, 2007.

(e) Mr. Soong Kok Meng was appointed as an independent non-executive director on 11th July, 2007.

(f) Mr. Chow Fu Kit, Edward was appointed as an independent non-executive director on 17th August, 2007.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (2006: four) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining one highest paid individual in 2006 were as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	–	420
Retirement benefit scheme contributions	–	19
	–	439

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

13. TAXATION

	2007	2006
	HK$'000	*HK$'000*
The (credit) charge comprises:		
Current tax		
Hong Kong	**240**	590
Other regions in the People's Republic of China ("PRC")	**–**	122
Other jurisdictions	**78**	5
	318	717
Underprovision in prior years		
Hong Kong	**250**	–
	568	717
Deferred taxation *(note 31)*		
Current year	**(1,124)**	448
	(556)	1,165

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

The subsidiary in PRC is subject to a statutory income tax rate of 24%. In accordance with the relevant tax laws and regulations of the PRC, the PRC subsidiary is exempted from Enterprise Income Tax ("EIT") for two years starting from its first profit making year after utilisation of carried forward tax losses and is eligible for a 50% relief on the EIT in the following three years. 2003 is the first profit making year. The income tax rate for 2007 was 12% (2006: 12%).

On 16th March, 2007, the government of the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the Chairman of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for the subsidiary from 1st January, 2008. The deferred tax balance has been reflected the tax rates that are expected to apply to the respective periods during which the asset will be realised or the liability settled.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

13. TAXATION (Continued)

The tax (credit) charge for the year can be reconciled to the (loss) profit before taxation as follows:

	2007	2006
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(29,296)**	6,667
Tax at Hong Kong Profits Tax rate of 17.5%	**(5,126)**	1,167
Tax effect of share of loss of a jointly controlled entity	**27**	–
Tax effect of expenses not deductible for tax purpose	**6,193**	196
Tax effect of income not taxable for tax purpose	**(1,953)**	(82)
Tax effect of tax loss not recognised	**–**	1
Tax effect of utilisation of tax losses previously not recognised	**–**	(83)
Tax effect of income tax on concessionary rate granted to the PRC subsidiary	**–**	(36)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**32**	42
Underprovision in respect of prior years	**250**	–
Others	**21**	(40)
Tax (credit) charge for the year	**(556)**	1,165

The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

14. (LOSS) PROFIT FOR THE YEAR

	2007	2006
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**7,810**	6,937
Release of prepaid lease payment	**268**	249
Staff costs, including directors' emoluments and share-based payments	**27,304**	17,170
Auditor's remuneration	**1,330**	930
Allowance for doubtful debts	**4,618**	1,003
Allowance for obsolete inventories	**1,885**	–
Loss on disposal of a subsidiary	**186**	–
Loss on assignment of other loans and interest receivable *(note 36(b))*	**531**	–
(Gain) loss on disposal of property, plant and equipment	**(249)**	248
Cost of inventories recognise as expenses	**220,934**	191,859
Minimum lease payment in respect of rental premises	**1,067**	–
Rental income	**(575)**	(127)
Less: Direct expenses that generated rental income	**24**	24
	(551)	(103)

Contributions to retirement benefits schemes of HK$568,000 (2006: HK$520,000) are included in staff costs.

15. DIVIDENDS

	2007	2006
	HK$'000	*HK$'000*
Dividends recognised as distributions:		
Interim dividend paid – HK0.033 cent per share	**–**	316
Final dividend in respect of the year ended 31st December, 2006 – Nil (2005 – HK0.1 cent per share)	**–**	958
	–	1,274

The directors do not recommend payment of a final dividend for the years ended 31st December, 2007 and 2006.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

16. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the following data:

	2007	2006
	HK$'000	*HK$'000*
(Loss) earnings attributable to equity holders of the Company for the purposes of basic (loss) earnings per share	**(28,796)**	5,504

	Number of shares	
	2007	2006
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,307,710**	958,000

No diluted loss per share has been presented for 2007 because the exercise of the potential dilutive ordinary shares would result in a reduction in loss per share.

No diluted earnings per share was presented for 2006 as the Company had no potential dilutive ordinary shares.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles	Yachts	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
AT COST OR VALUATION						
At 1st January, 2006	88,480	45,746	11,798	4,776	1,317	152,117
Effect on exchange adjustments	3,415	899	114	56	–	4,484
Additions	–	10,274	224	122	–	10,620
Disposals	–	(1,297)	(49)	(1,064)	–	(2,410)
Decrease in revaluation	(5,405)	–	–	–	–	(5,405)
At 31st December, 2006	86,490	55,622	12,087	3,890	1,317	159,406
Effect on exchange adjustments	3,963	1,150	134	58	–	5,305
Additions	31	392	2,831	817	–	4,071
Disposals	–	(1,221)	–	(437)	(1,317)	(2,975)
Disposal of a subsidiary	–	–	(90)	–	–	(90)
Increase in revaluation	576	–	–	–	–	576
At 31st December, 2007	**91,060**	**55,943**	**14,962**	**4,328**	**–**	**166,293**
Comprising:						
At cost	–	55,943	14,962	4,328	–	75,233
At valuation 2007	91,060	–	–	–	–	91,060
	91,060	55,943	14,962	4,328	–	166,293
ACCUMULATED DEPRECIATION						
At 1st January, 2006	–	17,408	9,899	4,321	1,317	32,945
Effect on exchanges adjustments	512	464	106	49	–	1,131
Provided for the year	2,084	3,984	609	260	–	6,937
Eliminated on disposals	–	(423)	(49)	(1,038)	–	(1,510)
Eliminated on revaluation	(2,596)	–	–	–	–	(2,596)
At 31st December, 2006	–	21,433	10,565	3,592	1,317	36,907
Effect on exchanges adjustments	632	564	122	44	–	1,362
Provided for the year	2,218	4,866	577	149	–	7,810
Eliminated on disposals	–	(284)	–	(437)	(1,317)	(2,038)
Eliminated on disposal of a subsidiary	–	–	(3)	–	–	(3)
Eliminated on revaluation	(2,850)	–	–	–	–	(2,850)
At 31st December, 2007	**–**	**26,579**	**11,261**	**3,348**	**–**	**41,188**
CARRYING VALUES						
At 31st December, 2007	**91,060**	**29,364**	**3,701**	**980**	**–**	**125,105**
At 31st December, 2006	86,490	34,189	1,522	298	–	122,499

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying value of properties shown above comprises:

	2007	2006
	HK$'000	*HK$'000*
Leasehold properties in Hong Kong under medium-term lease	**19,680**	17,890
Leasehold property outside Hong Kong under medium-term lease	**71,380**	68,600
	91,060	86,490

The leasehold land and buildings of the Group were revalued by Castores Magi (Hong Kong) Limited, an independent firm of registered professional surveyors, at 31st December, 2007 by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards. The revaluation gave rise to a net revaluation surplus of HK$3,426,000 (2006: deficit of HK$2,809,000) of which HK$3,426,000 (2006: HK$3,129,000) has been credited (2006: charged) to the property revaluation reserve and nil (2006: HK$320,000) has been credited to the consolidated income statement.

If the leasehold land and buildings of the Group had not been revalued, they would have been included on a historical cost basis at the following amounts:

	2007	2006
	HK$'000	*HK$'000*
Cost	**103,672**	99,678
Accumulated depreciation	**(20,172)**	(17,322)
Carrying values	**83,500**	82,356

Motor vehicles include an amount of HK$321,000 (2006: HK$15,000) in respect of assets held under a finance lease.

At 31st December, 2007, buildings with an aggregate carrying value of HK$71,380,000 (2006: HK$68,600,000) was pledged to banks to secure banking facilities granted to the Group.

18. PREPAID LEASE PAYMENTS

The leasehold land outside Hong Kong was held under medium-term lease.

	2007	2006
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current asset	**10,450**	10,214
Current asset	**268**	249
	10,718	10,463

At 31st December, 2006 and 2007, the leasehold land was pledged to a bank to secure a banking facility granted to the Group.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

19. AVAILABLE-FOR-SALE INVESTMENTS

	2007 HK$'000	2006 HK$'000
Equity securities listed in Hong Kong, at fair value based on quoted market bid price	285,471	–

The above equity securities are the Group's investment in China Railway Logistics Limited, a company incorporated in Bermuda and its shares are listed on the Growth Enterprise Market in the Stock Exchange. China Railway Logistics Limited is principally engaged in investment holding, design, development and sale of value-added telecommunication products, and computer telephony products and logistics transportation.

The investment represents a 14.51% holding of the ordinary shares of China Railway Logistics Limited and is more than 10% of the assets in the Group's balance sheet.

On 28th April, 2008, the fair value of the above equity security was significantly decreased to HK$129,220,000. The Group will assess impairment by considering the decrease in fair value and will provide for impairment in the financial year ending 2008 if the decline is considered as significant or prolonged.

20. DEPOSITS PLACED WITH AN INSURER

Deposits are attached to the life insurance policy. Upon initial recognition, the premium relating to the insurance policies are recognised separately. The deposits are carried at amortised cost at the effective interest rate of 5%. The initial premium for the insurance policies are included in debtors, deposits and prepayments and amortised over the insurance period.

The insured persons are the directors of the Company and the Company is the beneficiary of the life insurance policies. The life insurance funds have guaranteed returns over the respective policy periods.

The deposits were pledged to a bank to secure a banking facility granted to the Group.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

During the year, the Group established a jointly controlled entity, Shanghai PME-XINHUA Polishing Materials Systems ("Shanghai PME-XINHUA") with another venturer. As at 31st December, 2007, the Group had interest in Shanghai PME-XINHUA as follows:

Name of entity	Nominal value of registered capital	Country of registration and operation	Class of share held	Proportion of nominal value of registered capital held by the Group 2007	2006	Group's percentage of voting power and profit sharing 2007	2006	Principal activity
Shanghai PME-XINHUA	RMB10,000,000	PRC	Registered capital	60%	N/A	60%	N/A	Manufacturing and trading of polishing materials

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

21. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

	2007 HK$'000	2006 HK$'000
Cost of unlisted investment in a jointly controlled entity	**5,983**	–
Share of post-acquisition loss	**(154)**	–
	5,829	–

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	2007 HK$'000	2006 HK$'000
Current assets	**12,285**	–
Non-current assets	**2,169**	–
Current liabilities	**4,029**	–
Income	**13,781**	–
Expenses	**14,037**	–

The Group holds 60% of the registered capital of Shanghai PME-XINHUA and controls 60% of the voting power in the general meetings. However, under a shareholders' agreement, the major financial and operational decisions of Shanghai PME-XINHUA should be unanimously approved by the Group and another venturer. Therefore, Shanghai PME-XINHUA is regarded as a jointly controlled entity of the Group.

22. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	**7,617**	5,678
Work in progress	**61**	45
Finished goods	**23,892**	21,949
	31,570	27,672

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

23. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing credit period of 0 to 90 days to its trade debtors. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The aged analysis of the trade debtors of HK$67,810,000 (2006: HK$64,115,000) net of allowance for doubtful debts, which are included in the debtors, deposits and prepayments in the consolidated balance sheet is as follows:

	2007	2006
	HK$'000	*HK$'000*
Within 30 days	**20,948**	20,797
31 to 60 days	**24,958**	20,802
61 to 90 days	**15,259**	15,181
Over 90 days	**6,645**	7,335
	67,810	64,115
Other debtors, deposits and prepayments	**15,809**	12,617
	83,619	76,732

In determining the recoverability of a receivable, the Group considers whether there has been adverse change in the credit standing of the debtors from the date on which credit was initially granted. Accordingly, the directors believe that there was no further credit provision required in excess of the allowance for doubtful debts already provided for in the consolidated financial statements.

Included in the Group's receivable balance are debtors of HK$16,538,000 (2006: HK$7,457,000) which are past due at the reporting date but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these balances. The average age of these receivable is 100 days (2006: 99 days).

Aging of trade debtors which are past due but not impaired

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**6,440**	1,423
31 – 60 days	**5,897**	2,676
61 – 90 days	**3,119**	2,217
Over 90 days	**1,082**	1,141
	16,538	7,457

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

23. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Movements in the allowance for doubtful debts

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	**1,870**	867
Provision (reversed) in allowance recognised in income statement	**4,618**	1,003
Balance at end of the year	**6,488**	1,870

The above allowance for doubtful debts are individually impaired receivables due from certain trade debtors which have either been in disputes with the Group or are in financial difficulties. The Group does not hold any collateral over these receivables.

24. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The balance is unsecured, interest-free, aged within 30 days and are not past due as at 31st December, 2007.

25. DEPOSITS PLACED WITH A FINANCIAL INSTITUTION

The deposits are placed with a financial institution at 31st December, 2007 which are for trading in securities. The deposits carry interest at market rate of 2.2%.

26. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 2.2% to 5.9% (2006: 2.25% to 2.5%).

27. LOAN RECEIVABLES

The loans were made to independent third parties and were repayable within one year. Interests were charged at 15% or prime rate plus 3% (2006: prime rate plus 3% to 5%) on the outstanding balances of the loans.

At 31st December, 2007, loan receivables with an aggregate carrying amount of HK$4,730,000 (2006: HK$6,800,000) were secured by personal guarantees.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

28. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of HK$6,535,000 (2006: HK$5,396,000) which are included in the creditors and accruals in the consolidated balance sheet is as follows:

	2007	2006
	HK$'000	*HK$'000*
Within 30 days	**3,685**	1,994
31 to 60 days	**907**	2,423
61 to 90 days	**1,893**	777
Over 90 days	**50**	202
	6,535	5,396
Other creditors and accruals	**8,988**	5,275
	15,523	10,671

The average credit period on purchases of goods is 28 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

29. OBLIGATIONS UNDER A FINANCE LEASE

The lease term of the finance lease was four (2006: five) years. Interest rate is fixed at 9.24% (2006: 2.28%) at the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	**90**	62	**67**	61
More than one year, but not exceeding two years	**90**	–	**74**	–
More than two years, but not exceeding five years	**142**	–	**132**	–
	322	62	**273**	61
Less: future finance charges	**(49)**	(1)	**–**	–
Present value of lease obligations	**273**	61	**273**	61
Less: Amount due within one year shown under current liabilities			**(67)**	(61)
Amount due after one year			**206**	–

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

30. BANK LOANS

	2007 HK$'000	2006 HK$'000
Bank loans comprise:		
Trust receipt loans	**6,869**	6,381
Other bank loans	**14,015**	13,086
	20,884	19,467
Analysed as:		
Secured	**8,250**	8,010
Unsecured	**12,634**	11,457
	20,884	19,467

All bank loans are due for repayment within one year.

Bank loans included fixed-rate bank loans of HK$5,040,000 (2006: HK$4,800,000) which carried interest at 6.57% (2006: 5.58%). The remaining bank loans were variable-rate borrowings and their effective interest rates were ranging from 6.04% to 7.13% (2006: 6.00% to 7.13%).

The secured bank loans are secured by property, plant and equipment (note 17), prepaid lease payments (note 18) and deposits placed with an insurer (note 20).

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

31. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Revaluation of properties	Tax losses	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2006	2,334	2,545	(335)	(242)	4,302
Charge (credit) to consolidated income statement for the year	610	56	(250)	32	448
Credit to equity for the year	–	(1,146)	–	–	(1,146)
At 31st December, 2006	2,944	1,455	(585)	(210)	3,604
(Credit) charge to consolidated income statement for the year	(342)	–	(919)	137	(1,124)
Credit to equity for the year	–	723	–	–	723
At 31st December, 2007	**2,602**	**2,178**	**(1,504)**	**(73)**	**3,203**

At the balance sheet date, the Group had unused tax losses of HK$10,168,000 (2006: HK$4,913,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$8,586,000 (2006: HK$3,331,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,582,000 (2006: HK$1,582,000) due to the unpredictability of future profit streams.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

32. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Nominal value	
	2007	2006	**2007**	2006
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At end of year	**10,000,000**	10,000,000	**100,000**	100,000
Issue and fully paid:				
At beginning of year	**958,000**	958,000	**9,580**	9,580
Issue of shares from placements	**420,600**	–	**4,206**	–
Exercise of warrants	**220,000**	–	**2,200**	–
At end of year	**1,598,600**	958,000	**15,986**	9,580

(a) On 2nd April, 2007, the Company entered into a placing agreement with financial institution to place 191,600,000 new shares of the Company at HK$0.172 per share. The placing was completed on 16th April, 2007. The new shares rank pari passu with the existing shares in all respects.

On 5th July 2007, the Company entered into a placing agreement with financial institution to place 229,000,000 new shares of the Company at HK$2.49 per share. The placing was completed on 23rd July, 2007. The new shares rank pari passu with the existing shares in all respects.

(b) On 12th April, 2007, the Company entered into a placing agreement with financial institution to place 220,000,000 unlisted warrants of the Company at an issue price of HK$0.046 per warrant. The warrants entitled the placees to subscribe for the new shares of the Company at a subscription price of HK$0.25 per share (subject to anti-dilutive adjustments) for a period of 12 months commencing from the date of issue of the warrants. Each warrant carries the right to subscribe for one subscription share. Upon the issuance of warrants, HK$10,120,000 was credited to other reserve. All warrants were exercised to subscribe for 220,000,000 ordinary shares during the year.

33. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to the Company's share options scheme adopted on 23rd October, 2002, the board of directors of the Company may, at its discretion, grant options to full-times employees (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the highest of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares on the date of grant.

The maximum number of shares which may be in issue upon exercise of options granted and yet to be exercised under the share option scheme and any other scheme of the Company shall not exceed 30% of the total issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued on the exercise of options granted and to be granted (included both exercised and outstanding options) in any 12 months period up to the date of grant to each eligible person shall not exceed 1% of the total issued share capital of the Company in issue, unless (i) a shareholders' circular is dispatched to the shareholders; (ii) the shareholders approve the grant of the options in excess of the limit referred to herein; and (iii) the relevant eligible person and its associates abstain from the voting on the resolution.

A nominal consideration of HK$1 is payable on acceptance of each grant.

On 22nd October, 2007, the Company granted 30,000,000 share options to the directors of the Company. The share options were granted at an exercise price of HK$1.198 with exercise period of 3 years immediately starting from the date of grant.

The following table discloses movements of the Company's share options granted during the year:

	Number of share options			
Name of participant	**Outstanding at 1.1.2007**	**Granted during the year**	**Exercised during the year**	**Outstanding at 31.12.2007**
Directors				
Chan Shui Sheung, Ivy	–	15,000,000	–	15,000,000
Yeung Sau Han, Agnes	–	15,000,000	–	15,000,000
	–	30,000,000	–	30,000,000

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

These fair value of the option determined at the date of grant using the Black-Scholes-Merton option pricing model was HK$0.2337. The total fair value of the grant was HK$7,010,000 and was recognised during the year. The following assumptions were used to calculate the fair value of share options.

Closing price at the date of grant	HK$1.13
Exercise price	HK$1.198
Expected volatility	42.84%
Expected life	1.54 years
Risk-free rate	3.28%
Expected dividend yield	–

Expected volatility was determined by using the historical volatilities of comparable companies' share price over the previous 2 to 3 years.

The Black-Scholes-Merton option pricing model has been used to estimate the fair value of the option. The variables and assumptions used in computing the fair value of the share option are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

34. ACQUISITION OF A SUBSIDIARY

On 5th July, 2007, the Group acquired the loan receivable and its related assets and liabilities, at a consideration of HK$100 from a third party. The purchase was by way of acquisition of the entire issued share capital of Best Time Far East Limited ("Best Time"). This transaction has been deemed as a purchase of assets and related liabilities.

The net assets acquired in the transactions are as follows:

	HK$'000
Net assets acquired:	
Loan receivables	25,000
Deposits and prepayments	93
Bank balances and cash	1
Creditor and accruals	(93)
Other loan	(25,000)
Net assets acquired	1
Consideration satisfied by:	
Cash	1
Net cash flow arising on acquisition:	
Cash consideration paid	1
Cash and cash equivalents acquired	(1)
	–

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

34. ACQUISITION OF A SUBSIDIARY (Continued)

On 31st December, 2007, the above loan receivable acquired of HK$25,000,000 and the corresponding accrued interest receivable of HK$1,519,000 was assigned to the lender of the above other loan acquired of HK$25,000,000, to settle the other loan of HK$25,000,000 and accrued interest payable of HK$988,000. On the same day, Best Time was disposed to a third party (see note 35).

35. DISPOSAL OF A SUBSIDIARY

On 31st December, 2007, the Group disposed of a subsidiary, Peaknice Investment Limited ("Peaknice") in which it holds 100% equity interest in Best Time and 61% equity interest in Railway Media (China) Company Limited to a third party. The principal activity of Peaknice and its subsidiaries is investment holding. The consolidated net assets of this subsidiary at the date of disposal were as follows:

	HK$'000
Net assets disposed:	
Property, plant and equipment	87
Deposits and prepayments	132
Bank balances and cash	17
Creditors and accruals	(42)
	194
Loss on disposal	(186)
Total consideration	8
Satisfied by:	
Other receivable	8
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	(17)

36. MAJOR NON-CASH TRANSACTIONS

(a) During the year, the Group entered into a finance lease arrangement in respect of a motor vehicle with a capital value at the inception of the lease of HK$300,000.

(b) During the year, the Group assigned the loan receivable and the corresponding accrued interest receivable totalling HK$26,519,000 to an outsider ("Lender") in order to settle a loan and accrued interest payable to the Lender of HK$25,988,000. The Group has transferred substantially all the risks and rewards of receivable and discharged the obligation to the liabilities without recourse. The financial assets and liabilities are therefore dereceognised and loss on assignment of HK$531,000 has been recorded in the consolidated income statements of the Group.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

37. CAPITAL COMMITMENTS

On 29th September, 2006, the Group entered a joint venture agreement with a third party to establish a joint venture in which the Group will invest approximately HK$5,830,000 which was completed during the year.

38. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was HK$575,000 (2006: HK$127,000). The property has committed tenants for the next 2 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**412**	382
In the second to fifth year inclusive	**103**	254
	515	636

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premise which fall due as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,681**	–
In the second to fifth years inclusive	**2,967**	–
	5,648	–

Lease is negotiated for a term of two years with fixed rentals over the term of the lease.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

39. EMPLOYEE RETIREMENT BENEFITS

The operating subsidiaries in Hong Kong joined the mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contribution to the MPF Scheme at rates specified in the rules of the MPF Scheme. The obligation of the Group with respect of MPF Scheme is to make the required contribution under the MPF Scheme. The retirement benefits cost charged to the consolidated income statement represents contributions payable to the MPF Scheme by the Group.

The PRC employees of the subsidiary in the PRC are members of the pension scheme operated by the PRC local government. The subsidiary is required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contributions under the pension scheme.

During the year, the Group made retirement benefits scheme contributions of HK$568,000 (2006: HK$520,000).

40. RELATED PARTY TRANSACTIONS

During the year, the Group sold polishing materials to Shanghai PME-XINHUA, a jointly controlled entity of the Group, amounting to HK$326,000 (2006: nil).

Compensation of key management personnel (being the directors' emoluments) of the Group are set out in note 11.

41. POST BALANCE SHEET EVENTS

On 11th February, 2008, the Group entered into a subscription agreement with Betterment Enterprises Limited ("Betterment"), a third party to subscribe a convertible bond with a principal of HK$64,000,000 issued by Betterment ("Convertible Bond"). On 19th February and 25th February, 2008, the Group exercised the conversion rights under the Convertible Bond and converted the Convertible Bond in 51 and 9,898 shares of Betterment respectively. After the conversion, the Group held 9,949 shares of Betterment, which represented 99.49% of enlarged share capital of Betterment.

The principal activity of Betterment is holding approximately 29.29% of the issued share capital of ZZNode Technologies Company Limited ("ZZNode"), the shares of which are listed on the main board of the Stock Exchange.

It is impracticable to disclose the amounts recognised at 25th February, 2008 for each class of Betterment's consolidated assets, consolidated liabilities and contingent liabilities as the financial information of ZZNode as at 25th February, 2008 was not available for preparation of consolidated financial statements of Betterment.

On 8th April, 2008, the Company entered into a placing agreement to place 319,000,000 unlisted warrants at an issue price of HK$0.01 per warrant with rights attached to subscribe for 319,000,000 shares of the Company at a subscription price of HK$0.50 per new share of the Company. The placing of the unlisted warrants is not yet completed.

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *(note a)*	Proportion of nominal value of issued capital/ registered capital held by the Company 2007	2006	Principal activities
Indirectly held by the Company					
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK$300,000 *(note b)* Ordinary shares HK$1,000,000 (2006: HK$10,000)	100%	100%	Trading of polishing materials and equipment
PME International (BVI) Company Limited	British Virgin Islands ("BVI")	Ordinary shares US$30,000	100%	100%	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(note b)* Ordinary shares HK$100,000 (2006: HK$1,000)	100%	100%	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co. Limited	Hong Kong	Ordinary shares HK$60,000	100%	100%	Trading of polishing equipment
Dongguan PME Polishing Materials & Equipments Co., Ltd. *(note c)*	PRC	Registered capital HK$40,000,000	100%	100%	Manufacturing and trading of polishing materials
Wels International Company Limited	Japan	Registered capital JPY10,000,000	71%	71%	Trading of polishing materials
Sunbright Asia Limited	BVI	Ordinary shares US$1,000	100%	N/A	Investment in securities
Treasure Star Trading Limited	Hong Kong	Ordinary share HK$1	100%	N/A	Investment
Top Good Holdings Limited	Hong Kong	Ordinary share HK$1	100%	N/A	Investment

Notes to the Financial Statements (Continued)

For the year ended 31st December, 2007

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(a) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. and Wels International Company Limited which operate in the PRC and Japan respectively, all other principal subsidiaries operate principally in Hong Kong.

(b) The 5% non-voting deferred shares of HK$1 each are not held by the Group and practically carrying no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the companies. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining asset of the companies only after the distribution of HK$1,000,000 million, as specified in the articles of association, to holders of ordinary shares.

(c) Established as a wholly foreign owned enterprises.

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

None of the subsidiaries had any debt securities subsisting at 31st December, 2007 or at any time during the year.

Financial Summary

	For the year ended 31st December,				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	155,076	163,640	191,964	235,226	**258,884**
Cost of sales	(82,833)	(105,287)	(151,113)	(191,859)	**(222,819)**
Gross profit	72,243	58,353	40,851	43,367	**36,065**
Other income, gain and loss	624	866	4,037	2,597	**5,522**
Selling and distribution expenses	(9,004)	(7,886)	(12,879)	(12,367)	**(11,603)**
Administrative expenses	(27,389)	(26,584)	(25,242)	(25,902)	**(57,099)**
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement	56	554	895	320	**–**
Share of loss of a jointly controlled entity	–	–	–	–	**(154)**
Finance costs	(1,233)	(896)	(750)	(1,348)	**(2,027)**
Profit (loss) before taxation	35,297	24,407	6,912	6,667	**(29,296)**
Taxation	(4,664)	(3,169)	(1,754)	(1,165)	**556**
Profit (loss) for the year	30,633	21,238	5,158	5,502	**(28,740)**

	At 31st December,				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	204,197	258,224	264,031	275,319	**916,931**
Total liabilities	(42,818)	(25,517)	(28,031)	(34,485)	**(41,069)**
Equity	161,379	232,707	236,000	240,834	**875,862**