PME GROUP LIMITED

必美宜集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 00379

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
Mr. Tin Ka Pak
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

SHINEWING (HK) CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

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 hereby present to our shareholders the 2008 annual report.

RESULTS FOR THE YEAR

For the year 2008, the Group recorded turnover of approximately HK$298.1 million and net loss attributable to shareholders amounted to approximately HK$268.4 million.

The Directors do not recommend payment of final dividend for the year ended 31 December 2008.

REVIEW OF THE YEAR

The Group's turnover for the year ended 31 December 2008 increased by 15.1% to HK$298.1 million as compared with last year. The increase in turnover was mainly attributed from the proceeds from held-for-trading investments, amounting to HK$86.8 million.

The Group's revenue (excluding proceeds from held-for-trading investments) for the year ended 31 December 2008 dropped by 18.4% to HK$211.3 million as compared with last year. Segmental revenue of manufacturing and trading divisions decreased by 5.4% and 25.3% respectively, segmental revenue of technical services division increased by 178.5%, and segmental revenue of investment division decreased by 98.0% as compared with last year.

Loss for the year ended 31 December 2008 attributable to the shareholders of the Company was approximately HK$268.4 million (2007: HK$28.8 million). The loss for the year ended 31 December 2008 was mainly due to the impairment loss on the Group's available-for-sale investments, impairment loss recognised in respect of goodwill on acquisition of associates and subsidiaries and decrease in fair value of held-for-trading investments as a result of the general downturn in the financial markets and increase in administrative expenses.

During the first half of 2008, the material prices and the production costs continued to increase. The appreciation of Renminbi further pushed up the Group's production costs on top of the rising prices. The outbreak of the global financial crisis during the second half of 2008 adversely affected the export of consumer products from China to the United States and European markets. The demand for the Group's polishing products decreased simultaneously. The Group has taken various steps to promote its products including restructuring its distribution network and reducing the product prices in order to increase the competitiveness of the Group's products in the market. As such, the gross profit margin in the second half of 2008 decreased substantially and thus resulted in the decrease in overall gross profit for the year 2008. The administrative expenses for the year increased by HK$14.2 million from HK$56.9 million in 2007 to HK$71.1 million in 2008 mainly due to the setup of the investment division in second half of 2007.

As affected by the financial tsunami, Hong Kong stock market has plunged since the second-half of 2008. The Group's investments in the listed shares in the Hong Kong stock market recorded a substantial impairment loss as a result of decrease in the stock market prices. For the year ended 31 December 2008, the Group recorded decrease in fair value of held-for-trading investments of HK$15.8 million and impairment loss on available-for-sale investments of HK$199.5 million.

Chairman's Statement (Continued)

OUTLOOK

Looking ahead to year 2009, it will still be a difficult year. Although the governments worldwide have been taking massive fiscal and monetary policies to counter the financial turmoil and stabilise the financial markets, and the PRC government has implemented various steps to push up the export industries, it takes time to restore the market confidence and consumer demand. The competition in the polishing materials market in Hong Kong and Mainland China will still be very keen in 2009. The Group is making every effort to control its costs, taking advantage of its well-established sales network and expanding its distribution network. The Group will also concentrate on manufacturing and trading products with higher margin and market competitiveness in order to enhance its profit ratio.

The Directors expect that the Hong Kong stock market will recover moderately in 2009. The Group will take more prudent investment policies but believes that attractive investment opportunities are available as companies and businesses will be undervalued in a volatile financial market. The Company will grasp the investment and business opportunities as they arise to enhance value for its shareholders.

APPRECIATION

On behalf of the Board, I take this opportunity to thank our staff for their continuous effort and contributions to the Group.

I also take this opportunity to thank our customers, suppliers and business partners for your support during the year.

Finally, I would like to thank our shareholders for your trust in the Company.

Cheng Kwok Woo
Chairman

Hong Kong, 24 April 2009

Management Discussion and Analysis

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group's turnover for the year ended 31 December 2008 increased by 15.1% to HK$298.1 million as compared with last year. The increase in turnover was mainly attributed from the increase in turnover of the investment division during the year. During the year 2008, segmental revenue of manufacturing and trading divisions decreased by 5.4% and 25.3% respectively and segmental revenue of technical services division increased by 178.5%, as compared with last year. Segmental revenue of investment division for the year 2008 decreased by 98.0%.

Loss for the year ended 31 December 2008 attributable to the shareholders of the Company was approximately HK$268.4 million (2007: HK$28.8 million). The loss for the year ended 31 December 2008 was mainly due to the impairment loss on the Group's available-for-sale investments, impairment loss recognised in respect of goodwill on acquisition of associates and subsidiaries and decrease in fair value of held-for-trading investments as a result of the general downturn in the financial markets and increase in administrative expenses.

During the first half of 2008, the material prices and the production costs continued to increase. The appreciation of Renminbi further pushed up the Group's production costs on top of the rising prices. The outbreak of the global financial crisis during the second half of 2008 adversely affected the export of consumer products from China to the United States and European markets. The demand for the Group's polishing products decreased simultaneously. The Group has taken various steps to promote its products including restructuring its distribution network and reducing the product prices in order to increase the competitiveness of the Group's products in the market. As such, the gross profit margin in the second half of 2008 decreased substantially and thus resulted in the decrease in overall gross profit for the year 2008. The administrative expenses for the year increased by HK$14.2 million from HK$56.9 million in 2007 to HK$71.1 million in 2008 mainly due to the setup of the investment division in second half of 2007.

The global financial markets declined in the year of 2008 in the wake of the outbreak of the financial tsunami. During the year under review, Hong Kong stock market decreased as affected by global financial tsunami. The Group's investments in the listed shares in Hong Kong stock market recorded a substantial impairment loss as a result of the decrease in the stock market prices. For the year ended 31 December 2008, the Group recorded net realised gain of HK$24.9 million on disposal of held-for-trading investments. The decrease in fair value of held-for-trading investments amounted to HK$15.8 million and impairment loss on available-for-sale investments amounted to HK$199.5 million.

Management Discussion and Analysis (Continued)

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2008, the Group had interest-bearing bank borrowings of approximately HK$14.2 million (31 December 2007: HK$20.9 million), which were of maturity within one year. The Board expects that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continues to provide funding to the Group's operations. At 31 December 2008, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$84.9 million (31 December 2007: HK$82.1 million) and the held-for-trading investments with carrying amount of HK$80.1 million (2007: Nil) have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

At 31 December 2008, current assets of the Group amounted to approximately HK$369.6 million (31 December 2007: HK$486.0 million). The Group's current ratio was approximately 4.2 as at 31 December 2008 as compared with 12.9 as at 31 December 2007. At 31 December 2008, the Group had total assets of approximately HK$721.7 million (31 December 2007: HK$916.9 million) and total liabilities of approximately HK$90.4 million (31 December 2007: HK$41.1 million), representing a gearing ratio (measured as total liabilities to total assets) of 12.5% as at 31 December 2008 as compared with 4.5% as at 31 December 2007.

ADVANCE TO AN ENTITY

On 15 January 2008, Smart Genius Limited ("Smart Genius"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding (the "MOU") with Crown Sunny Limited (the "Proposed Vendor"), in relation to the intention of the proposed acquisition of 51% equity interests in Giant Billion Limited ("Giant Billion"), a company incorporated in Hong Kong with limited liability and wholly-owned subsidiary of the Proposed Vendor.

A refundable deposit of HK$32,000,000 had been paid upon execution of the MOU. On 30 January 2008, Smart Genius further entered into a heads of agreement ("Heads of Agreement") with the Proposed Vendor. Under the Heads of Agreement, the Proposed Vendor had given Smart Genius an exclusive right to 30 April 2008 to continue the due diligence review and during such period, the Proposed Vendor shall not engage in discussions or negotiations with other parties with respect to the proposed acquisition. In consideration for the granting of such exclusive right, a further refundable deposit of HK$48,000,000 had been paid to the Proposed Vendor. Relevant details are set out in the Company's announcements dated 15 January 2008 and 30 January 2008 respectively.

The exclusive period has subsequently been extended to 30 April 2009. Details have been set out in the Company's announcements dated 29 April 2008, 30 September 2008 and 5 January 2009 respectively. Up to the date of this annual report, the due diligence review and negotiation with the Proposed Vendor are still in progress.

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.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2008 and 2007.

CAPITAL COMMITMENTS

The Group has no capital commitment as at 31 December 2008 and 2007.

OUTLOOK

Looking ahead to year 2009, it will still be a difficult year due to continued economic downturn. Although the governments worldwide have taken massive fiscal and monetary policies to counter the economic turmoil and stabilise the financial markets, and the PRC government has implemented various steps to push up the export industries, the rising unemployment and the change in investment environment may further deteriorate the consumer market in the United States and Europe. The competition in polishing materials market in Hong Kong and Mainland China will still be very keen in 2009. The Group is making every effort to control its costs, taking advantage of its well-established sales network and expanding its distribution network. The Group will also concentrate on manufacturing and trading products with higher margin and market competitiveness in order to enhance its profit ratio.

The Directors expect that the Hong Kong stock market will recover moderately in 2009. In March 2009, the Group entered into an agreement with an independent third party to dispose of its investment in China Bio-Med Regeneration Technology Limited at consideration of HK$60 million. The proceeds from the disposal will be applied partly to reduce the Group's liability and partly as general working capital for future investment potential. The Group will take more prudent investment policies but believes that attractive investment opportunities are available as companies and businesses will be undervalued in a volatile financial market. The Company will grasp the investment and business opportunities as they arise to enhance value for its shareholders.

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2008, the Group had approximately 210 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 Board 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 2008.

THE BOARD OF DIRECTORS

The Board comprises five 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 12 to 14. 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				
Mr. Cheng Kwok Woo	5/5		1/1	1/1
Mr. Cheng Kwong Cheong	4/5			1/1
Ms. Chan Shui Sheung Ivy	5/5			
Ms. Yeung Sau Han Agnes	5/5			
Mr. Tin Ka Pak (appointed on 8 May 2008)	4/4			
Independent Non-Executive Directors				
Mr. Chow Fu Kit Edward	5/5	2/2	1/1	1/1
Mr. Leung Yuen Wing	5/5	2/2	1/1	1/1
Mr. Soong Kok Meng	5/5	2/2		1/1

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. Chow Fu Kit Edward, Mr. Leung Yuen Wing and Mr. Soong Kok Meng. 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 and senior management. 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.

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. Chow Fu Kit Edward and Mr. Leung Yuen Wing. 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, one new member has been appointed to the Board. 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. Chow Fu Kit Edward, Mr. Leung Yuen Wing and Mr. Soong Kok Meng. 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 2008.

To comply with the code provisions A.5.4 of the CG Code, the Company has also 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 31 December 2008, 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.

During the year, one ICC meeting was held, reviewing the effectiveness of the internal control system, risk assessment and business contingency planning assessment 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.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, the auditors of the Company only provided audit services to the Company and the Group.

The auditors' remuneration in relation to the audit services for the year amounted to HK$750,000.

The statement of the auditor of the Company regarding their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 21 and 22.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 24 April 2009

Directors' and Senior Management's Profiles

DIRECTORS

Executive Directors

Mr. Cheng Kwok Woo, aged 52, 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 25 years of experience in the trading and manufacturing of abrasive products. Mr. K.W. Cheng is the brother of Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Mr. Cheng Kwong Cheong, aged 48, 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 25 years of experience in the trading and manufacturing of abrasive products. Mr. K.C. Cheng is the brother of Mr. Cheng Kwok Woo and Ms. Cheng Wai Ying.

Ms. Chan Shui Sheung Ivy, aged 45, 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 of experience in investment. She is also an executive director of China Railway Logistics Limited and ZZNode Technologies Company Limited, which are listed on the Stock Exchange.

Mr. Tin Ka Pak, aged 33, joined the Group in May 2008 and is responsible for investment projects and investor relationship of the Group. He holds a Bachelor degree of Business Administration from Oxford Brookes University in the United Kingdom. He has been working in companies listed on the Stock Exchange to assist the chairman and CEO in group management, strategic planning, sales and marketing development, investment evaluation, and investor relationship. He is also an executive director of China Bio-Med Regeneration Technology Limited and ZZNode Technologies Company Limited, both companies are listed on the Stock Exchange.

Ms. Yeung Sau Han Agnes, aged 43, joined the Group in May 2007 and is responsible for business development of the Group. She graduated from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) with a higher diploma in fashion design. She is also an executive director of China Bio-Med Regeneration Technology Limited and China Railway Logistics Limited, both companies are listed on the Stock Exchange.

Independent Non-executive Directors

Mr. Chow Fu Kit Edward, aged 42, was appointed as an independent non-executive director in August 2007. He has over 10 years of 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.

Directors' and Senior Management's Profiles (Continued)

Mr. Leung Yuen Wing, aged 42, 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 member 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 46, was appointed as an independent non-executive director in July 2007. He has over 15 years of 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.

SENIOR MANAGEMENT

Mr. Io Cheok Kei Rudy, aged 48, is the Chief Investment Officer and Executive Vice President of the Group. He joined the Group in July 2008 and is responsible for the investment projects of the Group. He has extensive experience in industry sectors like Energy, Media and Internet Gaming in the Greater China region, including IPOs and M&A transactions for large listed groups on the Stock Exchange. Prior to joining the Group, he was the Greater China CFO of JC Decaux (world's largest out of home media multinational group listed in France) and CFO of China Power International Development Limited (a state-owned enterprise listed on the Stock Exchange). In early years, he had worked in various large groups in Hong Kong and Canada. He is a member of the Canadian Institute of Chartered Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He holds an undergraduate Honours Degree in Administrative Studies from York University, Toronto, Canada and a graduate degree in Business (Information Technology) from Curtin University of Technology, Australia.

Mr. Chow Yin Kwang, aged 70, is the project director of the Group. He joined the Group in 1995 and 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 50, is the financial controller of the Group. She joined the Group in 1990 and is responsible for the financial management of the Group. She has over 25 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 58, is the logistics director of the Group. She joined the Group in 1990 and is responsible for the logistics of the Group including product supply, delivery, storage, raw materials as well as trading product procurement. She has over 20 years of experience in logistics management.

Mr. Chan Yee Kam, aged 48, is the sales manager of the Group. He joined the Group in 2008 and is responsible for product sales and promotion of the Group. He graduated from The Hong Kong Polytechnic University with a Diploma in Business Management. He has over 20 years of experience in the sales of abrasive products.

Directors' and Senior Management's Profiles (Continued)

Mr. Fong Siu Chung, aged 47, 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. Lam Chi Wai, aged 36, is the marketing manager of the Group. He joined the Group in 2002 and is responsible for the sales services affairs and marketing research of the Group. He holds a Bachelor degree of Social Sciences from Hong Kong Baptist University.

Mr. Tam Kwok Kuen, aged 45, is the logistics manager of the Group. He joined the Group in 2003 and is responsible for product delivery and storage 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 of experience in the field of international trade.

Mr. Wong Wai Hung, aged 51, 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 Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). He has over 20 years of experience in the manufacturing industry.

Mr. Lee Kam Wing, aged 43, 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 33, 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 member 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 31 December 2008.

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 46 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31 December 2008 is set out in note 8 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 23 of the annual report.

The directors do not recommend payment of final dividend for the year ended 31 December 2008.

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 pages 89 and 90 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 consolidated 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 37 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$584,429,000.

Movement in the share premium and reserves of the Group during the year are set out on pages 26 and 27 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 and the movements of the share option scheme during the year are set out in note 38 to the consolidated financial statements.

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 10.6 per cent and 45.0 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 43 to the consolidated financial statements.

USE OF PROCEEDS

In November 2008, the Company placed 160,000,000 new shares at HK$0.1 per share. Net proceeds from placement of 160,000,000 new shares, after deducting the professional fees and all related expenses, amounted to approximately HK$15.50 million had been applied as general working capital of the Group.

DIRECTORS

The directors of the Company during the year ended 31 December 2008 and up to the date of this report were:

Executive directors

Mr. Cheng Kwok Woo, *Chairman*
Mr. Cheng Kwong Cheong, *Vice-Chairman and CEO*
Ms. Yeung San Han Agnes
Ms. Chan Shui Sheung Ivy
Mr. Tin Ka Pak (appointed on 8 May 2008)

Independent non-executive directors

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

In accordance with Article 87(1) of the Company's Articles of Association, Ms. Yeung Sau Han Agnes, Ms. Chan Shui Sheung Ivy and Mr. Soong Kok Meng 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 pages 12 and 13 of the annual report.

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 1 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.

Report of the Directors (Continued)

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

At 31 December 2008, 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/underlying shares of the Company:

	Number of shares/underlying shares held			
Directors	**Personal interests**	**Corporate interests**	**Total interests**	**Percentage of interests**
Mr. Cheng Kwok Woo	60,900,000	318,438,000 *(note)*	379,338,000	21.57%
Mr. Cheng Kwong Cheong	60,900,000	318,438,000 *(note)*	379,338,000	21.57%
Ms. Chan Shui Sheung Ivy	15,000,000	–	15,000,000	0.85%
Ms. Yeung Sau Han Agnes	15,000,000	–	15,000,000	0.85%

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.

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 31 December 2008, 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	18.11%
Mr. Cheng Kwok Woo	*2*	379,338,000	21.57%
Mr. Cheng Kwong Cheong	*2*	379,338,000	21.57%
Ms. Cheng Wai Ying	*2*	355,838,000	20.23%
Ms. Tsang Sui Tuen	*3*	379,338,000	21.57%
Ms. Wan Kam Ping	*4*	379,338,000	21.57%
Mr. Cheng Yau Kuen	*5*	355,838,000	20.23%

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 60,900,000 shares of the Company. Ms. Cheng Wai Ying personally holds 37,400,000 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 379,338,000 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 379,338,000 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 355,838,000 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 31 December 2008.

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 8 to 11 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

The consolidated financial statements for the two years ended 31 December 2006 and 2007 were audited by Deloitte Touche Tohmatsu.

The consolidated financial statements for the year ended 31 December 2008 were audited by SHINEWING (HK) CPA Limited.

A resolution to reappoint SHINEWING (HK) CPA Limited 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, 24 April 2009

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

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 23 to 88, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, 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 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
24 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	**298,089**	258,884
Revenue		**211,256**	258,884
Cost of sales		**(200,003)**	(222,819)
Gross profit		**11,253**	36,065
Other income, gain and loss	9	**8,120**	5,522
Selling and distribution expenses		**(10,676)**	(11,603)
Administrative expenses		**(71,088)**	(56,913)
Decrease in fair value of investment property		**(694)**	–
Gain (loss) on disposal of subsidiaries	40	**5,815**	(186)
Gain on disposal of held-for-trading investments		**24,907**	–
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	27	**154,465**	–
Impairment loss recognised in respect of available-for-sale investments	20	**(199,500)**	–
Impairment loss recognised in respect of goodwill on acquisition of an associate	23	**(43,674)**	–
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	22	**(161,008)**	–
Decrease in fair value of held-for-trading investments		**(15,792)**	–
Share of results of associates		**29,943**	–
Share of result of a jointly controlled entity		**172**	(154)
Finance costs	10	**(1,163)**	(2,027)
Loss before taxation		**(268,920)**	(29,296)
Taxation	13	**528**	556
Loss for the year	14	**(268,392)**	(28,740)
Attributable to:			
Equity holders of the Company		**(268,371)**	(28,796)
Minority interests		**(21)**	56
		(268,392)	(28,740)
Dividend	15	**–**	–
Loss per share			
Basic	16	**HK(16.62) cents**	HK(2.20) cents

Consolidated **Balance Sheet**

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	17	**105,999**	125,105
Investment property	18	**3,200**	–
Prepaid lease payments	19	**11,020**	10,450
Available-for-sale investments	20	**66**	285,471
Deposits placed with an insurer	21	**–**	3,737
Goodwill	22	**–**	–
Interests in associates	23	**225,410**	–
Interest in a jointly controlled entity	24	**6,001**	5,829
Club debentures		**350**	350
		352,046	430,942
Current assets			
Inventories	25	**27,017**	31,570
Debtors, deposits and prepayments	26	**158,018**	83,619
Convertible bond designated as financial assets at fair value through profit or loss	27	**7,047**	–
Amount due from a jointly controlled entity	28	**111**	332
Loan receivables	29	**58,650**	4,730
Prepaid lease payments	19	**290**	268
Taxation recoverable		**643**	52
Held-for-trading investments	30	**80,112**	–
Deposits placed with a financial institution	31	**19,579**	200,451
Bank balances and cash	32	**18,150**	164,967
		369,617	485,989
Current liabilities			
Creditors and accruals	33	**72,761**	15,523
Taxation payable		**802**	1,186
Obligation under a finance lease	34	**74**	67
Bank loans	35	**14,211**	20,884
		87,848	37,660
Net current assets		**281,769**	448,329
Total assets less current liabilities		**633,815**	879,271
Non-current liabilities			
Obligation under a finance lease	34	**132**	206
Deferred taxation	36	**2,452**	3,203
		2,584	3,409
		631,231	875,862

Consolidated Balance Sheet (Continued)

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Capital and reserves			
Share capital	37	**17,586**	15,986
Reserves		**613,369**	859,565
Equity attributable to equity holders of the Company		**630,955**	875,551
Minority interests		**276**	311
		631,231	875,862

The consolidated financial statements on pages 23 to 88 were approved and authorised for issue by the Board of Directors on 24 April 2009 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 31 December 2008

	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/ (Accumulated loss) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	9,580	202,296	(38,581)	2,960	–	4,473	–	–	59,851	240,579	255	240,834
Exchange differences arising from 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 31 December 2007	15,986	846,510	(38,581)	4,990	7,010	7,176	1,405	–	31,055	875,551	311	875,862

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2008

	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/ (Accumulated loss) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	15,986	846,510	(38,581)	4,990	7,010	7,176	1,405	–	31,055	875,551	311	875,862
Exchange differences arising from translation of foreign operations	–	–	–	3,482	–	–	–	–	–	3,482	–	3,482
Exchange differences arising from translation of an associate	–	–	–	1,586	–	–	–	–	–	1,586	–	1,586
Impairment losses on available-for-sale investment	–	–	–	–	–	–	(1,405)	–	–	(1,405)	–	(1,405)
Revaluation decrease on buildings	–	–	–	–	–	(1,386)	–	–	–	(1,386)	–	(1,386)
Deferred tax arising on revaluation on buildings	–	–	–	–	–	374	–	–	–	374	–	374
Net income and expense recognised directly in equity	–	–	–	5,068	–	(1,012)	(1,405)	–	–	2,651	–	2,651
Loss for the year	–	–	–	–	–	–	–	–	(268,371)	(268,371)	(21)	(268,392)
Total recognised income and expense for the year	–	–	–	5,068	–	(1,012)	(1,405)	–	(268,371)	(265,720)	(21)	(265,741)
Recognition of equity-settled share based payment	–	–	–	–	2,511	–	–	–	–	2,511	–	2,511
Issue of shares upon placing	1,600	14,400	–	–	–	–	–	–	–	16,000	–	16,000
Share issue expenses	–	(479)	–	–	–	–	–	–	–	(479)	–	(479)
Share option cancelled	–	–	–	–	(2,079)	–	–	–	2,079	–	–	–
Share of reserves of associates	–	–	–	(1,238)	4,486	–	–	–	–	3,248	–	3,248
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	358	358
Disposal of subsidiaries	–	–	(7,200)	(156)	–	(4,936)	–	–	12,136	(156)	(372)	(528)
At 31 December 2008	17,586	860,431	(45,781)	8,664	11,928	1,228	–	–	(223,101)	630,955	276	631,231

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 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Loss before taxation	**(268,920)**	(29,296)
Adjustments for:		
Allowance for obsolete inventories	**118**	1,885
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	**(154,465)**	–
Decrease in fair value of held-for-trading investments	**15,792**	–
Decrease in fair value of investment property	**694**	–
Depreciation of property, plant and equipment	**8,481**	7,810
Finance costs	**1,163**	2,027
(Gain) loss on disposal of subsidiaries	**(5,815)**	186
Interest income	**(6,219)**	(2,299)
Impairment loss on trade debtors	**8,457**	4,618
Impairment loss recognised in respect of available-for-sale investments	**199,500**	–
Impairment loss recognised in respect of goodwill on acquisition of an associate	**43,674**	–
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	**161,008**	–
Imputed interest income on deposits placed with an insurer	**(18)**	(178)
Loss on assignment of other loans and interest receivable	**–**	531
Loss (gain) on disposals of property, plant and equipment	**40**	(249)
Release of prepaid lease payments	**286**	268
Share-based payments	**2,511**	7,010
Share of result of a jointly controlled entity	**(172)**	154
Share of results of associates	**(29,943)**	–
Operating cash flows before movements in working capital	**(23,828)**	(7,533)
Decrease in deposits placed with an insurer	**3,755**	–
Decrease (increase) in inventories	**5,143**	(5,340)
Increase in debtors, deposits and prepayments	**(82,650)**	(11,397)
Increase in convertible bond designated as financial assets at fair value through profit or loss	**(70,332)**	–
Decrease (increase) in amount due from a jointly controlled entity	**242**	(332)
Increase in loans receivables	**(46,920)**	–
Increase in held-for-trading investments	**(68,860)**	–
Decrease (increase) in deposits placed with a financial institution	**204,871**	(200,451)
Increase in creditors and accruals	**53,459**	4,723
Cash used in operations	**(25,120)**	(220,330)
Income tax refunded	**–**	951
Income tax paid	**(101)**	(131)
NET CASH USED IN OPERATING ACTIVITIES	**(25,221)**	(219,510)

Consolidated Cash Flow Statement (Continued)
For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES		
Advances of loan receivables	**(7,000)**	(4,730)
Acquisition of associates	**(117,388)**	–
Advance to an associate	**(7,000)**	–
Purchases of property, plant and equipment	**(3,807)**	(3,771)
Purchase of an investment property	**(3,428)**	–
Repayments of loan receivables	**–**	7,400
Repayments from an associate	**7,000**	–
Disposal of subsidiaries	**3,614**	(17)
Interest received	**3,634**	780
Proceeds from disposal of property, plant and equipment	**27**	1,186
Purchases of available-for-sale investments	**–**	(284,066)
Investment in a jointly controlled entity	**–**	(5,983)
NET CASH USED IN INVESTING ACTIVITIES	**(124,348)**	(289,201)
FINANCING ACTIVITIES		
New bank loans raised	**43,478**	25,370
Proceeds from placing of new shares	**16,000**	603,165
Repayments of bank loans	**(51,999)**	(24,193)
Interest paid	**(1,141)**	(1,028)
Share issue expenses for placing	**(479)**	(17,363)
Repayments of obligation under a finance lease	**(67)**	(88)
Finance lease charges paid	**(22)**	(11)
Proceeds from issue of shares upon exercises of warrants	**–**	55,000
Proceeds from issues of warrants	**–**	10,120
Expenses incurred in connection with issue of warrants	**–**	(302)
NET CASH FROM FINANCING ACTIVITIES	**5,770**	650,670
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(143,799)**	141,959
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**164,967**	25,704
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(3,022)**	(2,696)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**18,146**	164,967
Cash and cash equivalents at the end of the year, represented by:		
Bank balances and cash	**18,150**	164,967
Bank overdrafts	**(4)**	–
	18,146	164,967

Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL

PME Group Limited (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 addresses 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 ("HK$"), which is also the functional currency of the Company.

The Company and its subsidiaries (collectively referred to as the "Group") are engaged in investment and manufacture and trading of polishing materials. The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in Note 46.

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

In the current year, the Group has applied the following amendments and interpretations ("New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for the Group's financial year beginning 1 January 2008.

Hong Kong Accounting Standards ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC)-Interpretation ("INT") 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC)-INT 12	Service Concession Arrangements
HK(IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the New HKFRSs 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

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

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-INT 9 and HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[5]
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC)-INT 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC)-INT 18	Transfers of Assets from Customers[7]

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

The application of HKFRS 3 (Revised) may effectively affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from 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, balances, income and expenses are eliminated on consolidation.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a jointly controlled entity.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under 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.

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

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.

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.

Revenue from the sales of goods is 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 shareholders' 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 accumulated impairment losses.

Leasehold land and buildings are stated in the consolidated 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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 consolidated 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/accumulated losses.

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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.

Investment property

Investment property is property held to earn rental and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at its fair value using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Intangible asset

Intangible asset acquired separately (including club debentures) 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 asset below).

Gain or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 buildings

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Borrowing costs

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

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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets comprise of financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective basis for debt instruments other than those designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held-for-trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held-for-trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets.

Convertible bond

Convertible bond acquired by the Group (including related embedded derivatives) are designated as financial assets at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bond is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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 financial institutions, loan receivables and bank balances and cash) 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 FVTPL, 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 loss on financial assets

Financial assets, other than those at FVTPL, 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 affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

For financial assets carried at 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 and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade debtor or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at 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 or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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 an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified as other financial liabilities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including creditors and accruals, obligation under a finance lease 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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

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. An 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 standard.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences 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 exchange differences arising on the retranslation of non-monetary items in respect of which gains or 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 year, 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 profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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 to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits costs

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

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 option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to be ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option 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 option reserve will be transferred to retained profits.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying the entity's accounting policies

The following are the critical judgments, apart from those involving estimation (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying the entity's accounting policies (Continued)

Estimated impairment of goodwill arising from subsidiaries

Determining whether goodwill is impaired requires an estimation of the future cash flows expected to arise from the subsidiaries in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2008, impairment loss on goodwill of subsidiaries of HK$161,008,000 is considered as necessary.

Equity accounting for associates

As at 31 December 2008, the Group's equity interest in China Railway Logistics Limited ("China Railway"), an associate of the Group of which shares are listed on The Stock Exchange, was 14.93%.

The directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decisions of China Railway through the Group's ability to appoint a board representative.

Accordingly, China Railway is classified as an associate and the results of China Railway were equity accounted for in the consolidated financial statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 impairment of goodwill arising from an associate

Determining whether goodwill is impaired requires an estimation of the expected dividend yield from the associate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2008, impairment loss on goodwill of an associate of HK$43,674,000 is considered as neccessary.

Estimated impairment of trade and other debtors

The Group makes impairment loss 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. In determining whether impairment loss on debtors is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

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.

Estimated impairment loss on available-for-sale investments

In determining whether there is objective evidence of impairment in relation to the Group's available-for-sale investments in equity securities, the Group takes into consideration of significant or prolonged decline in the market prices below the respective costs. As at 31 December 2008, the carrying amount of available-for-sales investments is approximately HK$66,000 (2007: HK$285,471,000). The directors performed impairment assessment of the Group's available-for-sale investments and an impairment loss of approximately HK$200,905,000 (2007: Nil) were recognised, of which HK$1,405,000 had been charged to the investment revaluation reserve and HK$199,500,000 had been charged to the consolidated income statement. The directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decisions of the investment, the available-for-sale investments had been reclassified as an associate of the Group.

Fair value of convertible bond

The fair value of the convertible bond involves assumptions on the issuer's credit spread, discount rate, expected credit rating and future cash flows. Should these assumptions change, there would be material changes to the valuation.

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 summarised the return to shareholders 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, bank balances and cash and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

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 Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	**244,189**	442,027
Available-for-sale financial assets	**66**	285,471
Convertible bond designated as financial assets at fair value through profit or loss	**7,047**	–
Held-for-trading investments	**80,112**	–
Financial liabilities		
Other financial liabilities at amortised cost	**87,178**	36,680

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, convertible bond designated as financial assets at fair value through profit or loss, 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, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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 subsidiaries have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 31% (2007: 54%) of the Group's purchase are denominated in currencies other than the functional currency of the group entity. The management considers the Group is not exposed to significant foreign currency risk in relation to Renminbi ("RMB") as the operations and transaction of the Company's subsidiary operating in the People's Republic of China (the "PRC") is denominated in its functional currency of RMB. The Group also has bank balances, creditors and bank loans denominated in foreign currencies. Since the fluctuation of HK$ and United States dollar ("USD") 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 Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

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:

	2008 *HK$'000*	2007 *HK$'000*
Assets		
USD	213	99,439
Japanese Yen	7	18
Euro	3	904
	223	100,361
Liabilities		
USD	14,449	6,453
Japanese Yen	28,634	11,153
Euro	7,511	2,263
	50,594	19,869

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2007: 5%) increase and decrease in Hong Kong dollars against relevant foreign currencies. 5% (2007: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the 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% (2007: 5%) change in foreign currency rates. A positive number indicates a decrease in loss/an increase in profit for the year when Hong Kong dollar strengthens against the relevant foreign currencies. For a 5% (2007: 5%) weakening of Hong Kong dollar against the relevant currency, there would be an equal but opposite impact on the loss for the year.

	2008 *HK$'000*	2007 *HK$'000*
Japanese Yen		
Loss for the year	1,431	557
Euro		
Loss for the year	375	68

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS (Continued)

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

(i) Market risk (Continued)

Fair value and cash flow interest rate risk

The Group has significant loan receivables, deposits placed with a financial institution, bank balances, bank loans and obligation under a finance lease which bear interest rate risk. Loan receivables, deposits placed with a financial institution, bank balances and bank loans at variable rates expose the Group to cash flow interest-rate risk. Bank loans 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, loan receivables, bank balances, and bank loans 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$1,452,000 (2007: decrease in loss by approximately HK$3,773,000). If interest rates had decreased by 200 basis points, there would be an equal but opposite impact on the profit (loss) 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 decreased during the current year mainly due to the decrease in variable rate interest bearing financial assets, such as deposits placed with a financial institution and bank balances.

Other price risk

The Group is exposed to other 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 analysis has been determined based on the exposure to other price risks at the reporting date. As a result of the volatile financial market, the management adjusted the sensitivity rate from 5% to 30% in the current year for the purpose of analysing other price risk. If the prices of the respective equity instruments had been 30% (2007: 5%) higher/lower:

– post-tax profit for the year ended 31 December 2008 would increase/decrease by HK$26,148,000 (2007: Nil) as a result of the changes in fair value of held-for-trading investments and convertible bond designated as financial assets at fair value through profit or loss; and

– investment valuation reserve would increase/decrease by HK$20,000 (2007: HK$14,274,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

6. FINANCIAL INSTRUMENTS (Continued)

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

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise 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 for both years, as the trade debtors spread over a number of counterparties and customers. No single debtor outstanding at the balance sheet dates exceeds 10% of the total balance of trade debtors for both years.

The Group has significant concentration of credit risk arising from deposits placed with financial institutions as at 31 December 2008 and 2007.

The credit risk for bank balances and deposits placed with financial institutions and insurer are considered minimal as such amounts are placed with banks, financial institutions and insurer 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 35. 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	0-90 days	91-180 days	181-365 days	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2008								
Creditors and accruals		**35,178**	**37,567**	**16**	**–**	**–**	**72,761**	**72,761**
Obligation under a finance lease	**9.24**	**22**	**22**	**46**	**90**	**53**	**233**	**206**
Bank loans	**4.71**	**2,587**	**5,628**	**6,501**	**–**	**–**	**14,716**	**14,211**
		37,787	**43,217**	**6,563**	**90**	**53**	**87,710**	**87,178**
As at 31 December 2007								
Creditors and accruals		15,473	50	–	–	–	15,523	15,523
Obligation under a finance lease	9.24	22	22	46	90	142	322	273
Bank loans	7.13	5,060	7,597	8,890	–	–	21,547	20,884
		20,555	7,669	8,936	90	142	37,392	36,680

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 wheels; trading of polishing materials and polishing equipment; provision of technical consultancy service, net of allowances and returns and sales tax; trading of equity securities and interest income, during the year.

	2008	2007
	HK$'000	*HK$'000*
Manufacturing, trading and provision of technical service	**211,017**	246,677
Proceeds from held-for-trading investments	**86,833**	–
Interest income	**239**	12,207
	298,089	258,884

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four 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 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 Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below.

Consolidated income statement for the year ended 31 December 2008

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	123,022	86,845	1,150	239	211,256
Result					
Segment result	(23,967)	(12,229)	939	(64,527)	(99,784)
Unallocated corporate expenses					(3,880)
Unallocated other income and gain					4,659
Gain on disposal of subsidiaries	5,815	–	–	–	5,815
Impairment loss recognised in respect of goodwill on acquisition of an associate	–	–	–	(43,674)	(43,674)
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	–	–	–	(161,008)	(161,008)
Share of results of associates	–	–	–	29,943	29,943
Share of result of a jointly controlled entity	172	–	–	–	172
Finance costs					(1,163)
Loss before taxation					(268,920)
Taxation					528
Loss for the year					(268,392)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Consolidated balance sheet at 31 December 2008

	Manufacturing HK$'000	Trading HK$'000	Technical service HK$'000	Investment HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	182,314	33,848	185	258,066	474,413
Interest in associates	–	–	–	225,410	225,410
Interest in a jointly controlled entity	6,001	–	–	–	6,001
Unallocated corporate assets					15,839
Consolidated total assets					721,663
LIABILITIES					
Segment liabilities	7,577	4,578	62	60,750	72,967
Unallocated corporate liabilities					17,465
Consolidated total liabilities					90,432

Other information

	Manufacturing HK$'000	Trading HK$'000	Technical service HK$'000	Investment HK$'000	Consolidated HK$'000
Capital additions	3,362	82	1	362	3,807
Capital additions of investment property	–	–	–	3,894	3,894
Depreciation of property, plant and equipment	6,559	1,461	20	441	8,481
Release of prepaid lease payments	286	–	–	–	286
Loss on disposals of property, plant and equipment	20	20	–	–	40
Decrease in fair value of investment property	–	–	–	694	694
Gain on disposals of subsidiaries	(5,815)	–	–	–	(5,815)
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	–	–	–	154,465	154,465
Impairment loss recognised in respect of available-for-sale investments	–	–	–	199,500	199,500
Impairment loss recognised in respect of goodwill on acquisition of an associate	–	–	–	43,674	43,674
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	–	–	–	161,008	161,008
Impairment loss on trade debtors	4,841	3,569	47	–	8,457
Allowance for inventories	32	86	–	–	118

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Consolidated income statement for the year ended 31 December 2007

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	130,081	116,183	413	12,207	258,884
Result					
Segment result	(9,307)	(5,951)	(452)	(11,208)	(26,918)
Unallocated corporate expenses					(4,857)
Unallocated other income and gain					4,846
Loss on disposal of a subsidiary					(186)
Share of result of a jointly controlled entity	(154)	–	–	–	(154)
Finance costs					(2,027)
Loss before taxation					(29,296)
Taxation					556
Loss for the year					(28,740)

Consolidated balance sheet at 31 December 2007

	Manufacturing *HK$'000*	Trading *HK$'000*	Technical service *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
ASSETS					
Segment assets	191,189	52,866	107	627,919	872,081
Interest in a jointly controlled entity	5,829	–	–	–	5,829
Unallocated corporate assets					39,021
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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Other information

	Manufacturing	Trading	Technical service	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital additions	108	1,879	2	2,082	4,071
Depreciation of property, plant and equipment	5,973	1,689	7	141	7,810
Loss on assignment of other loans and interest receivable	–	–	–	531	531
Gain on disposal of property, plant and equipment	(134)	(108)	(7)	–	(249)
Loss on disposal of a subsidiary	–	–	–	186	186
Release of prepaid lease payments	268	–	–	–	268
Impairment loss on trade debtors	3,312	501	805	–	4,618
Allowance for inventories	377	1,508	–	–	1,885

Geographical segments

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

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

	Revenue	
	2008	2007
	HK$'000	*HK$'000*
Hong Kong	**60,264**	111,579
The PRC	**137,428**	127,723
Other Asian regions	**10,151**	14,953
North America and Europe	**911**	2,065
Other countries	**2,502**	2,564
	211,256	258,884

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

The following is an analysis of the carrying amount of assets and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and investment property	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**314,475**	730,161	**3,980**	3,963
The PRC	**159,938**	141,920	**3,255**	108
	474,413	872,081	**7,235**	4,071

9. OTHER INCOME, GAIN AND LOSS

	2008	2007
	HK$'000	*HK$'000*
		(Restated)
Interest income from bank	**2,123**	92
Interest income from loan receivables	**4,096**	688
Imputed interest income on deposits placed with an insurer	**18**	178
Net foreign exchange gains	**327**	3,300
Rental income	**527**	575
Sundry income	**1,029**	689
	8,120	5,522

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

10. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Finance costs comprise:		
Interests on bank borrowings and overdraft wholly repayable within five years	1,141	1,028
Finance lease charges	22	11
Interest on other loans	–	988
	1,163	2,027

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2007: thirteen) directors were as follows:

2008

Name of director	Notes	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors						
Mr. Cheng Kwok Woo		–	1,024	924	48	1,996
Mr. Cheng Kwong Cheong		–	1,024	924	48	1,996
Ms. Yeung Sau Han Agnes		–	240	–	12	252
Ms. Chan Shui Sheung Ivy		–	373	–	18	391
Mr. Tin Ka Pak	*a*	–	233	–	8	241
Independent Non-executive Directors						
Mr. Leung Yuen Wing		120	–	–	–	120
Mr. Soong Kok Meng		120	–	–	–	120
Mr. Chow Fu Kit Edward		120	–	–	–	120
Total for the year 2008		360	2,894	1,848	134	5,236

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

11. DIRECTORS' EMOLUMENTS (Continued)

2007

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

No directors waived any emoluments in the two years ended 31 December 2008 and 2007.

Notes:

(a) Mr. Tin Ka Pak was appointed as an executive director on 8 May 2008.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2007: five) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining three (2007: Nil) highest paid individuals in 2008 were as follows:

	2008	2007
	HK$'000	*HK$'000*
Salaries and other benefits	**2,834**	–
Retirement benefit scheme contributions	**29**	–
	2,863	–

The emoluments fell within the following band:

	Number of individuals	
	2008	2007
Emolument band		
Nil to HK$1,000,000	**2**	–
HK$1,000,000 to HK$2,000,000	**1**	–

During the two years ended 31 December 2008 and 2007, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2008

13. TAXATION

	2008 HK$'000	2007 HK$'000
The credit comprises:		
Current tax		
Hong Kong	48	240
The PRC	–	–
Other jurisdictions	–	78
	48	318
(Over) underprovision in prior years		
Hong Kong	(574)	250
	(526)	568
Deferred taxation *(Note 36)*		
Current year	181	(1,124)
Effect of changes in tax rate	(183)	–
	(528)	(556)

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year.

The subsidiary in PRC is subject to a statutory enterprise income ("EIT") 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 2008 was 25% (2007: 12%).

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiary in the PRC was increased from 12% to 25% in the current year.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

13. TAXATION (Continued)

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

	2008	2007
	HK$'000	*HK$'000*
Loss before taxation	**(268,920)**	(29,296)
Tax at Hong Kong Profits Tax rate of 16.5% (2007: 17.5%)	**(44,371)**	(5,126)
Tax effect of share of results of associates	**(4,941)**	–
Tax effect of share of result of a jointly controlled entity	**(28)**	27
Tax effect of expenses not deductible for tax purpose	**77,019**	6,214
Tax effect of income not taxable for tax purpose	**(30,335)**	(1,953)
Tax effect of tax loss not recognised	**2,885**	–
Tax effect of changes of tax rate of deferred tax	**(183)**	–
Effect of different tax rate of subsidiaries operating in other jurisdictions	**–**	32
(Over) underprovision in respect of prior years	**(574)**	250
Tax credit for the year	**(528)**	(556)

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

14. LOSS FOR THE YEAR

	2008	2007
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**8,481**	7,810
Release of prepaid lease payment	**286**	268
Staff costs, including directors' emoluments and share-based payments	**28,026**	27,304
Auditor's remuneration	**750**	1,330
Impairment loss on trade debtors (included in administrative expenses)	**8,457**	4,618
Allowance for inventories (included in cost of sales)	**118**	1,885
Loss on assignment of other loans and interest receivable *(Note 44)*	**–**	531
Decrease in fair value of investment property	**694**	–
Loss (gain) on disposal of property, plant and equipment	**40**	(249)
Cost of inventories recognise as expenses	**199,885**	220,934
Minimum lease payment in respect of rental premises	**2,560**	1,067
Rental income	**(527)**	(575)
Less: direct expenses that generated rental income	**24**	24
	(503)	(551)
Share of tax of associates (included in share of results of associates)	**(296)**	–

Contributions to retirement benefits schemes of HK$703,000 (2007: HK$568,000) are included in staff costs.

Share-based payments of HK$2,511,000 (2007: HK$7,010,000) are included in staff costs.

15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

16. LOSS PER SHARE

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

	2008	2007
	HK$'000	*HK$'000*
Loss attributable to equity holders of the Company for the purposes of basic loss per share	**(268,371)**	(28,796)

	Number of shares	
	2008	2007
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,614,775**	1,307,710

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Yachts HK$'000	Total HK$'000
AT COST OR REVALUATION						
At 1 January 2007	86,490	55,622	12,087	3,890	1,317	159,406
Effect on exchange adjustments	3,331	1,150	134	58	–	4,673
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	1,208	–	–	–	–	1,208
At 31 December 2007	91,060	55,943	14,962	4,328	–	166,293
Effect on exchange adjustments	5,583	1,975	235	88	–	7,881
Additions	–	3,459	348	–	–	3,807
Disposals	–	(15)	(70)	(229)	–	(314)
Disposal of subsidiaries	(19,680)	(90)	(141)	–	–	(19,911)
Decrease in revaluation	(3,413)	–	–	–	–	(3,413)
At 31 December 2008	**73,550**	**61,272**	**15,334**	**4,187**	**–**	**154,343**
Comprising:						
At cost	–	61,272	15,334	4,187	–	80,793
At valuation 2008	73,550	–	–	–	–	73,550
	73,550	61,272	15,334	4,187	–	154,343
ACCUMULATED DEPRECIATION						
At 1 January 2007	–	21,433	10,565	3,592	1,317	36,907
Effect on exchange adjustments	–	564	122	44	–	730
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	(2,218)	–	–	–	–	(2,218)
At 31 December 2007	–	26,579	11,261	3,348	–	41,188
Effect on exchange adjustments	–	1,122	215	72	–	1,409
Provided for the year	2,256	5,071	904	250	–	8,481
Eliminated on disposals	–	(1)	(17)	(229)	–	(247)
Eliminated on disposal of subsidiaries	(229)	(90)	(141)	–	–	(460)
Eliminated on revaluation	(2,027)	–	–	–	–	(2,027)
At 31 December 2008	**–**	**32,681**	**12,222**	**3,441**	**–**	**48,344**
CARRYING VALUES						
At 31 December 2008	**73,550**	**28,591**	**3,112**	**746**	**–**	**105,999**
At 31 December 2007	91,060	29,364	3,701	980	–	125,105

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold land and buildings	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

The carrying value of properties shown above comprises:

	2008	2007
	HK$'000	*HK$'000*
Leasehold properties in Hong Kong under medium-term lease	–	19,680
Leasehold property outside Hong Kong under medium-term lease	**73,550**	71,380
	73,550	91,060

The leasehold land and buildings of the Group were revalued by Castores Magi (Hong Kong) Limited, an independent firm of registered professional surveyors, at 31 December 2008 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 deficit of approximately HK$1,386,000 (2007: surplus of HK$3,426,000) which has been charged (2007: credited) to the property revaluation reserve.

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:

	2008	2007
	HK$'000	*HK$'000*
Cost	**90,062**	103,672
Accumulated depreciation	**(18,403)**	(20,172)
Carrying values	**71,659**	83,500

Motor vehicles include an amount of approximately HK$251,000 (2007: HK$321,000) in respect of assets held under a finance lease.

At 31 December 2008, buildings with an aggregate carrying value of HK$73,550,000 (2007: HK$71,380,000) was pledged to banks to secure banking facilities granted to the Group.

18. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
Addition *(Note)*	3,894
Decrease in fair value recognised in the consolidated income statement	(694)
At 31 December 2008	**3,200**

The investment property of the Group was revaluated by Jointgoal Surveyors Limited, an independent firm of registered professional surveyors, at 31 December 2008 by reference to comparable transactions as available on the market.

The above investment property is located in Hong Kong under medium-term lease and is held under operating lease to earn rental or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as an investment property.

Note:

Included in addition for the year are transfer from deposits paid for acquisition of an investment property acquired from the acquisition of a subsidiary during the year (Note 39).

19. PREPAID LEASE PAYMENTS

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

	2008	2007
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current asset	**11,020**	10,450
Current asset	**290**	268
	11,310	10,718

At 31 December 2008 and 2007, the leasehold land was pledged to a bank to secure a banking facility granted to the Group.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value based on quoted market bid price		
Carrying amount at 1 January	**285,471**	285,471
Impairment losses recognised during the year *(Note)*	**(200,905)**	–
Reclassified to interest in an associate	**(84,500)**	–
Carrying amount at 31 December	**66**	285,471

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2008

20. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

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

For the year ended 31 December 2007, the investment represented mainly of the 14.51% holding of the ordinary shares of China Railway and is more than 10% of the assets in the Group's balance sheet.

As set out in Note 23, following the appointment of director of the Company as director of China Railway during the year ended 31 December 2008, the directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decision of China Railway. Accordingly, China Railway is classified as an associate.

Note:

During the year, an impairment loss of HK$200,905,000 was recognised, of which HK$1,405,000 was charged to the investment revaluation reserve and HK$199,500,000 were recognised in the consolidated income statement. The fair values of the listed securities were based on quoted market prices at the time of assessment and the directors had considered the decrease in the market prices indicated a prolonged decline in the fair value of the investments.

21. 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.

As at 31 December 2007, the deposits were pledged to a bank to secure a banking facility granted to the Group. The deposits had been surrendered during the year ended 31 December 2008.

22. GOODWILL

	2008 ***HK$'000***	2007 *HK$'000*
Goodwill arising from acquisition of subsidiaries during the year *(Note 39)*	**161,008**	–
Less: impairment loss recognised	**(161,008)**	–
	–	–

During the year ended 31 December 2008, the Group acquired several subsidiaries and goodwill of approximately HK$161,008,000 in aggregate arising therefrom was recognised upon acquisition of which details are set out in Note 39.

22. GOODWILL (Continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill is allocated to the investment segment.

The Group tests goodwill annually for impairment if there are indications that goodwill might be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGUs to which goodwill has been allocated by reference to, amongst other things, the market value or recoverable amount of the major assets held by the subsidiaries, such as held-for-trading investments and an investment property; estimated future dividend yield from interest in an associate held by a subsidiary and the existing operations and future prospects of the subsidiaries. Accordingly, an impairment loss in respect of the full amount of goodwill totaling to approximately HK$161,008,000 is recognised in the consolidated income statement of the Group for the year.

23. INTERESTS IN ASSOCIATES

	2008	2007
	HK$'000	*HK$'000*
Cost of investment in associates listed in Hong Kong	**192,219**	–
Share of post-acquisition results and reserves	**33,191**	–
	225,410	–
Fair value of listed investments	**193,944**	–

As disclosed in Note 20, the directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decision of China Railway through the appointment of certain directors of the Company as directors of China Railway. Accordingly, the investment in China Railway is classified as an associate. As at 31 December 2008, the Group held approximately 14.93% equity interests in China Railway. The fair value of the shares of China Railway held by the Group at 31 December 2008 was approximately HK$55,376,000.

During the year ended 31 December 2008, the Group acquired ZZNode Technologies Company Limited ("ZZNode"), a company listed on the Main Board of the Stock Exchange, through the acquisition of a subsidiary, Betterment Enterprises Limited ("Betterment"), in which the Company holds 99.49% equity interests. Details are disclosed in Note 39. As at year end, the Group held an effective interest of approximately 29.29% equity interests in ZZNode. The fair value of the shares of ZZNode held by the Group at 31 December 2008 was approximately HK$66,442,000.

During the year ended 31 December 2008, One Express Group Limited ("One Express"), a wholly-owned subsidiary of the Company, had entered into an agreement with Mangreat Assets Corporation, Williamsburg Invest Limited and Homelink Venture Corporation for the acquisition of 515,200,000 ordinary shares of China Bio-Med Regeneration Technology Limited ("China Bio-Med", formerly known as BM Intelligence International Limited), a company listed on the Growth Enterprise Market of the Stock Exchange, at an aggregate consideration of HK$99,948,000, representing approximately 22.59% equity interests in China Bio-Med. The fair value of the shares of China Bio-Med held by the Group as at 31 December 2008 was approximately HK$72,126,000.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

23. INTERESTS IN ASSOCIATES (Continued)

During the year ended 31 December 2008, the Group had disposed of 750 shares in Express Advantage Limited ("Express Advantage"), a wholly-owned subsidiary of the Company, representing 75% of the equity interests in Express Advantage, upon which Express Advantage became an associate of the Group. The Group had subsequently repurchased the 75% equity interests in Express Advantage and Express Advantage became a wholly-owned subsidiary of the Group again. Details of which are set out in Notes 39 and 40 respectively.

As at 31 December 2008, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of Shares held	Proposition of nominal value of issued capital/ registered capital held by the Group 2008	2007	Principal activities
China Railway	Incorporated	Bermuda	Hong Kong	Ordinary shares	**14.93%** *(note a)*	14.51% *(note b)*	Provision of telecommunication and computer technology solutions
ZZNode	Incorporated	Cayman Islands	Hong Kong	Ordinary shares	**29.29%**	–	Provision of telecommunications and OSS products and solutions and investment property holding
China Bio-Med	Incorporated	Cayman Islands	Hong Kong	Ordinary shares	**22.59%**	–	Business, accounting and corporate development advisory services

Note a: As at 31 December 2008, the directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decision of China Railway. Accordingly, China Railway is classified as an associate.

Note b: The interest in China Railway held by the Group as at 31 December 2007 was classified as available-for-sale investments.

The financial year end date for China Bio-Med is 30 April. For the purpose of applying the equity method of accounting, a separate set of consolidated financial statements of China Bio-Med had been prepared.

During the year, a discount on acquisition of approximately HK$72,695,000 arising on the acquisition of China Railway has been included as income in the determination of the Group's share of loss of associates as presented in the consolidated income statement.

23. INTERESTS IN ASSOCIATES (Continued)

Included in cost of investment in associates is goodwill of approximately HK$57,493,000 arising on acquisitions of associates in current year. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 January 2008	–
Arising on acquisitions of associates	57,493
Impairment recognised in respect of goodwill on acquisition of associates	(43,674)
At 31 December 2008	**13,819**

Note:

The above goodwill arose in respect of the acquisition of interest in China Bio-Med. As at the year end date, the directors of the Company conducted a review on the impairment of such goodwill in respect of its interest in China Bio-Med. As set out in Note 45, the Group has entered into an agreement with an independent third party subsequent to the balance sheet date to dispose of its holding of 500,000,000 shares in China Bio-Med out of its total holding of 515,200,000 shares. In conducting their assessment on the recoverable amount of the Group's investment in the shares of China Bio-Med, the directors have taken into account the impact of such agreement and accordingly, an impairment of HK$43,674,000 in the goodwill was recognised and charged to the consolidated income statement for the year ended 31 December 2008.

The summarised financial information in respect of the Group's associates is set out below:

	2008	2007
	HK$'000	*HK$'000*
Total assets	**1,426,776**	–
Total liabilities	**(201,658)**	–
Minority interests	**(10,240)**	–
Net assets	**1,214,878**	–
Group's share of net assets of associates	**211,591**	–
Turnover	**37,502**	–
Loss for the year	**(274,308)**	–
Group's share of loss of associates for the year	**(42,752)**	–

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

24. INTEREST IN A JOINTLY CONTROLLED ENTITY

During the year ended 31 December 2007, the Group established a jointly controlled entity, Shanghai PME-XINHUA Polishing Materials Systems ("Shanghai PME-XINHUA") with another venturer. As at 31 December 2008, 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		Group's percentage of voting power and profit sharing		Principal activity
				2008	2007	**2008**	2007	
Shanghai PME-XINHUA	RMB10,000,000	PRC	Registered capital	**60%**	60%	**60%**	60%	Manufacturing and trading of polishing materials

	2008 HK$'000	2007 HK$'000
Cost of unlisted investment in a jointly controlled entity	**5,983**	5,983
Share of post-acquisition profit (loss)	**18**	(154)
	6,001	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:

	2008 HK$'000	2007 HK$'000
Total assets	**13,695**	14,454
Total liabilities	**(2,318)**	(4,029)
Net assets	**11,377**	10,425
Turnover	**20,208**	13,781
Profit (loss) for the year	**286**	(257)
Group's share of result of a jointly controlled entity for the year	**172**	(154)

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 financing 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

25. INVENTORIES

	2008 HK$'000	2007 HK$'000
Raw materials	**5,414**	7,617
Work in progress	**87**	61
Finished goods	**21,516**	23,892
	27,017	31,570

26. 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 approximately HK$62,997,000 (2007: HK$67,810,000) net of impairment loss, which are included in the debtors, deposits and prepayments in the consolidated balance sheet is as follows:

	2008 HK$'000	2007 HK$'000
Within 30 days	**15,118**	20,948
31 to 60 days	**13,778**	24,958
61 to 90 days	**6,489**	15,259
Over 90 days	**27,612**	6,645
	62,997	67,810
Other debtors, deposits and prepayments *(Note)*	**95,021**	15,809
	158,018	83,619

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 accumulated impairment loss already provided for in the consolidated financial statements.

Included in the Group's receivable balance are debtors of approximately HK$22,118,000 (2007: HK$16,538,000) 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 95 days (2007: 100 days).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

26. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Aging of trade debtors which are past due but not impaired

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**747**	6,440
31 to 60 days	**2,359**	5,897
61 to 90 days	**1,641**	3,119
Over 90 days	**17,371**	1,082
	22,118	16,538

Movements in the accumulated impairment losses

	2008	2007
	HK$'000	*HK$'000*
Balance at beginning of the year	**6,488**	1,870
Impairment loss recognised in consolidated income statement	**8,457**	4,618
Balance at end of the year	**14,945**	6,488

The above impairment losses 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.

Note:

Included in other debtors, deposits and prepayments as at 31 December 2008 are deposits paid for acquisition of investment of HK$80,000,000. On 15 January 2008, Smart Genius Limited ("Smart Genius"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding (the "MOU") with Crown Sunny Limited (the "Proposed Vendor"), in relation to the intention of the proposed acquisition of 51% equity interests in Giant Billion Limited ("Giant Billion"), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Proposed Vendor.

A refundable deposit of HK$32,000,000 had been paid upon execution of the MOU. On 30 January 2008, Smart Genius further entered into a heads of agreement ("Heads of Agreement") with the Proposed Vendor. Under the Heads of Agreement, the Proposed Vendor had given Smart Genius an exclusive right to 30 April 2008 to continue the due diligence review and during such period, the Proposed Vendor shall not engage in discussions or negotiations with other parties with respect to the proposed acquisition. In consideration for the granting of such exclusive right, a further refundable deposit of HK$48,000,000 had been paid to the Proposed Vendor. Relevant details are set out in the Company's announcements dated 15 January 2008 and 30 January 2008 respectively.

The exclusive period has subsequently been extended to 30 April 2009. Details have been set out in the Company's announcements dated 29 April 2008, 30 September 2008 and 5 January 2009 respectively. Up to the date of approval of this consolidated financial statements, the due diligence review and negotiation with the Proposed Vendor are still in progress.

27. CONVERTIBLE BOND DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 HK$'000	2007 HK$'000
Convertible bond designated as financial assets at fair value through profit or loss		
CSCP Bond *(Note (a))*	7,047	–
Betterment Bond *(Note (b))*	–	–
	7,047	–

Notes:

(a) During the year ended 31 December 2008, the Group acquired a two-year 2% coupon rate convertible bond with a principal amount of HK$5,000,000 issued by China Sciences Conservational Power Limited ("CSCP") from a subsidiary of Heng Xin China Holdings Limited ("Heng Xin"), of which Ms. Yeung Sau Han Agnes, a director of the Company, is also one of the directors, at a consideration of approximately HK$6,332,000. The Group has classified the convertible bond as held-for-trading purpose.

Both CSCP and Heng Xin are companies listed on the Stock Exchange. The convertible bond can be converted, in an amount of not less than HK$1,000,000, into new ordinary shares of CSCP at any time within a period of two years following the date of issue at a conversion price of HK$0.05 per share. The Group has designated the convertible bond as financial assets at fair value through profit or loss.

A fair value gain of approximately HK$715,000 was recognised for the year ended 31 December 2008 (2007: Nil).

(b) During the year ended 31 December 2008, the Group subscribed from Betterment a convertible bond (the "Betterment Bond") with a principal amount of HK$64,000,000. The Group has designated the Betterment Bond as financial assets at fair value through profit or loss. The Group subsequently exercised the conversion right under the Betterment Bond and converted the whole of the Betterment Bond into equity shares in Betterment. Betterment has since then become a subsidiary of the Group. More details are set out in Note 39.

At the time immediately before the conversion, the Betterment Bond has been restated to its fair value of HK$217,795,000, determined in accordance with a valuation report issued by Grant Shermen Appraisal Limited, an independent valuer, using the Binomial Option Pricing Model. A fair value gain of approximately HK$153,750,000 was recognised and credited to the consolidated income statement for the year ended 31 December 2008.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

28. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The balance is unsecured, interest-free, aged within 30 to 60 days and are not past due as at 31 December 2008 and 2007.

29. LOAN RECEIVABLES

The loans were made to independent third parties and were repayable within one year. Interests were charged at 7.5% to 12% or prime rate plus 3 or 5% (2007: prime rate plus 3%) on the outstanding balances of the loans.

At 31 December 2008, loan receivables with an aggregate carrying amount of HK$45,070,000 (2007: HK$4,730,000) were secured by personal guarantees.

30. HELD-FOR-TRADING INVESTMENTS

	2008	2007
	HK$'000	*HK$'000*
Listed securities:		
Equity securities listed in Hong Kong, at fair value	**80,112**	–

31. DEPOSITS PLACED WITH A FINANCIAL INSTITUTION

The deposits are placed with a financial institution are for trading in securities. The deposits carry interest at market rates which range from 0.01% to 0.75% (2007: 2.2%) per annum.

32. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.05% to 4.8% (2007: 2.2% to 5.9%) per annum.

33. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors of approximately HK$7,260,000 (2007: HK$6,535,000) which are included in the creditors and accruals in the consolidated balance sheet is as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**1,271**	3,685
31 to 60 days	**972**	907
61 to 90 days	**1,483**	1,893
Over 90 days	**3,534**	50
	7,260	6,535
Other creditors and accruals	**65,501**	8,988
	72,761	15,523

The credit period on purchases of goods ranged from 0 to 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

As at 31 December 2008, included in other creditors and accruals are approximately HK$34,000,000 consideration payable in relation to acquisition of China Bio-Med during the year (Note 23).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

34. OBLIGATIONS UNDER A FINANCE LEASE

The lease term of the finance lease was three (2007: four) years. Interest rate is fixed at 9.24% (2007: 9.24%) at the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	**90**	90	**74**	67
In more than one year, but not more than two years	**90**	90	**81**	74
In more than two years, but not more than five years	**53**	142	**51**	132
	233	322	**206**	273
Less: future finance charges	**(27)**	(49)	**N/A**	N/A
Present value of lease obligations	**206**	273		
Less: Amount due for settlement within twelve months (shown under current liabilities)			**(74)**	(67)
Amount due for settlements after twelve months			**132**	206

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

35. BANK LOANS

	2008 HK$'000	2007 HK$'000
Bank loans comprise:		
Bank overdraft	**4**	–
Trust receipt loans	**2,378**	6,869
Other bank loans	**11,829**	14,015
	14,211	20,884
Analysed as:		
Secured	**5,454**	8,250
Unsecured	**8,757**	12,634
	14,211	20,884

The exposure of the Group's borrowings are as follows:

	2008 HK$'000	2007 HK$'000
Fixed-rate borrowings	**5,454**	5,040
Variable rate borrowings	**8,757**	15,844
	14,211	20,884

The Group's variable-rate borrowings carry interest at LIBOR.

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

	2008	2007
Effective interest rate		
Fixed-rate borrowings	**6.57% to 8.22%**	6.57%
Variable-rate borrowings	**2.08% to 7.34%**	6.04% to 7.13%

For the year ended 31 December 2008, the secured bank loans are secured by the Group's property, plant and equipment (Note 17) and prepaid lease payments (Note 19).

For the year ended 31 December 2007, the secured bank loans are also secured by deposits placed with an insurer (Note 21).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

36. 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 HK$'000	Revaluation of properties HK$'000	Tax losses recognised HK$'000	Others HK$'000	Total HK$'000
At 1 January 2007	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 31 December 2007	2,602	2,178	(1,504)	(73)	3,203
Change in tax rate	(149)	(124)	86	4	(183)
Attributable to disposal of subsidiaries	–	(375)	–	–	(375)
(Credit) charge to consolidated income statement for the year	(223)	–	394	10	181
Charge to equity for the year	–	(374)	–	–	(374)
At 31 December 2008	**2,230**	**1,305**	**(1,024)**	**(59)**	**2,452**

At the balance sheet date, the Group had unused tax losses of HK$25,272,000 (2007: HK$10,168,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$6,206,000 (2007: HK$8,586,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$19,066,000 (2007: HK$1,582,000) due to the unpredictability of future profit streams.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

37. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Nominal value	
	2008	2007	**2008**	2007
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At end of year	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of year	**1,598,600**	958,000	**15,986**	9,580
Issue of shares from placements	**160,000**	420,600	**1,600**	4,206
Exercise of warrants	**–**	220,000	**–**	2,200
At end of year	**1,758,600**	1,598,600	**17,586**	15,986

On 20 October 2008, the Company entered into a placing agreement with a financial institution to place 160,000,000 new shares of the Company at HK$0.10 per share. The placing was completed on 25 November 2008. The new shares rank pari passu with the existing shares in all respects.

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

On 5 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 23 July 2007. The new shares rank pari passu with the existing shares in all respects.

On 12 April 2007, the Company entered into a placing agreement with a 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 ended 31 December 2007.

38. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to the Company's share option scheme adopted on 23 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 8 May 2008, the Company granted 17,500,000 share options to the directors of the Company and staff of the Group. The share options were granted at an exercise price of HK$0.6 with exercise period of 3 years immediately starting from the date of grant. All of the above options granted but not exercised had been subsequently cancelled on 31 October 2008.

On 31 October 2008, the Company granted 18,500,000 share options to the directors of the Company and staff of the Group. The share options were granted at an exercise price of HK$0.075 with exercise period of 3 years immediately starting from the date of grant.

On 22 October 2007, the Company granted 30,000,000 shares 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options granted during the year ended 31 December 2008:

				Number of share options			
Name of participant	Date of grant	Exercisable period	Exercisable price HK$	Outstanding at 1/1/2008	Granted during the year	Cancelled during the year	Outstanding at 31/12/2008
Directors							
Chan Shui Sheung Ivy	22.10.2007	22.10.2007 to 22.10.2010	1.198	15,000,000	–	–	15,000,000
Yeung Sau Han Agnes	22.10.2007	22.10.2007 to 22.10.2010	1.198	15,000,000	–	–	15,000,000
Cheng Kwok Woo	8.5.2008	8.5.2008 to 31.10.2008	0.6	–	6,500,000	(6,500,000)	–
	31.10.2008	31.10.2008 to 31.10.2011	0.075	–	6,500,000	–	6,500,000
Cheng Kwong Cheong	8.5.2008	8.5.2008 to 31.10.2008	0.6	–	6,500,000	(6,500,000)	–
	31.10.2008	31.10.2008 to 31.10.2011	0.075	–	6,500,000	–	6,500,000
Sub-total				30,000,000	26,000,000	(13,000,000)	43,000,000
Employees	8.5.2008	8.5.2008 to 31.10.2008	0.6	–	4,500,000	(4,500,000)	–
	31.10.2008	31.10.2008 to 31.10.2011	0.075	–	5,500,000	–	5,500,000
Total				30,000,000	36,000,000	(17,500,000)	48,500,000

38. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options granted during the year ended 31 December 2007:

Name of participant	Date of grant	Exercisable period	Exercisable price HK$	Number of share options: Outstanding at 1/1/2007	Granted during the year	Cancelled during the year	Outstanding at 31/12/2007
Directors							
Chan Shui Sheung Ivy	22.10.2007	22.10.2007 to 22.10.2010	1.198	–	15,000,000	–	15,000,000
Yeung Sau Han Agnes	22.10.2007	22.10.2007 to 22.10.2010	1.198	–	15,000,000	–	15,000,000
				–	30,000,000	–	30,000,000

The fair value of the options granted on 8 May 2008 determined at the date of grant using the Black-Scholes-Merton option pricing model was HK$0.1188. The total fair value of the grant was approximately HK$2,079,000.

The fair value of the options granted on 31 October 2008 determined at the date of grant using the Black-Scholes-Merton option pricing model was HK$0.023346. The total fair value of the grant was approximately HK$432,000 and was recognised during the year.

The fair value of the options granted on 22 October 2007 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 approximately HK$7,010,000 and was recognised during the year ended 31 December 2007.

The following assumptions were used to calculate the fair value of share options.

	31 October 2008	**8 May 2008**	22 October 2007
Closing price at the date of grant	**HK$0.075**	**HK$0.58**	HK$1.13
Exercise price	**HK$0.075**	**HK$0.6**	HK$1.198
Expected volatility	**64.56%**	**43.40%**	42.84%
Expected life	**1.50 years**	**1.50years**	1.54 years
Risk-free rate	**0.747%**	**1.465%**	3.28%
Expected dividend yield	**–**	**–**	–

In 2008, expected volatility was determined based on 1.5 year annualised daily historical price volatilities of comparable companies sourced from the Bloomberg.

In 2007, 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

39. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2008

On 11 February 2008, the Group entered into a subscription agreement with Betterment, an independent third party, to subscribe a convertible bond with a principal of HK$64,000,000 issued by Betterment (the "Betterment Bond"). In February 2008, the Group exercised the conversion rights under the Betterment Bond and converted the whole of the Betterment Bond into shares of Betterment. The Betterment Bond had a fair value of approximately HK$217,795,000 at the time of conversion (Note 27). After the conversion, the Group held 9,949 shares of Betterment, which represented 99.49% of enlarged share capital of Betterment and Betterment became a subsidiary of the Company. The acquisition had been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$148,191,000.

On 11 September 2008, the Group subscribed for 9 shares in Host Luck Limited ("Host Luck") at par value of HK$1 per share, representing 90% equity interests in the enlarged issued share capital of Host Luck. Host Luck became a subsidiary of the Company accordingly. The acquisition had been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$13,000.

On 31 December 2008, the Group acquired 750 shares in Express Advantage, and then associate of the Group in which the Group held a 25% equity interest. Express Advantage used to be a wholly-owned subsidiary of the Group but on 31 May 2008, the Group disposed of 75% equity interests in Express Advantage to an independent third party (Note 40). On 31 December 2008, the Group repurchased the 75% equity interests in Express Advantage for a consideration of USD750 (equivalent to approximately HK$6,000), upon which Express Advantage became a wholly-owned subsidiary of the Group again. The acquisition had been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$12,804,000.

The fair values of the identifiable assets and liabilities of the respective subsidiaries acquired during the year ended 2008 and 2007 have no significant differences from their respective carrying amounts.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

39. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2008 (Continued)

The net assets (liabilities) acquired in these transactions are as follows:

	Betterment at fair value *HK$'000*	Host Luck at fair value *HK$'000*	Express Advantage at fair value *HK$'000*	Total *HK$'000*
Net assets (liabilities) acquired:				
Deposit paid for acquisition of investment property	–	466	–	466
Interest in an associate	32,417	–	–	32,417
Debtors, deposits and prepayments	5	–	8	13
Held-for-trading investments	–	–	27,044	27,044
Deposits placed in financial institutions	43,292	–	7,067	50,359
Other creditors and accruals	(5,753)	(478)	(46,917)	(53,148)
Minority interest	(357)	(1)	–	(358)
	69,604	(13)	(12,798)	56,793
Goodwill on acquisition	148,191	13	12,804	161,008
Total consideration	217,795	–	6	217,801
Satisfied by:				
Convertible bond designated as financial assets at fair value through profit or loss	217,795	–	–	217,795
Other receivables	–	–	6	6
Transfer from interests in associates	–	–	–	–
	217,795	–	6	217,801
Net cash outflow arising on acquisition				
Subscription for convertible bond designated as financial assets through profit or loss	64,000	–	–	64,000

The subsidiaries acquired during the year contributed approximately HK$66,628,000 to the Group's net operating cash flows and contributed HK$39,084,000 in respect of investing activities. The aggregate turnover and the loss for the year of the acquired subsidiaries are as follows:

	For the year ended 31 December 2008 *HK$'000*	Post acquisition attributable to the Group *HK$'000*
Total turnover	202,237	86,833
Loss for the year	9,387	5,542

The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

39. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2007

On 5 July 2007, the Group acquired the loan receivables and its related assets and liabilities, at a consideration of HK$1,000 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)
	1
Consideration satisfied by:	
Cash	1
Net cash flow arising on acquisition:	
Cash consideration paid	1
Cash and cash equivalents acquired	(1)
	–

On 31 December 2007, the above loan receivables 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 of to a third party (Note 40).

The subsidiary acquired during the year had no significant impact to the Group's cash flows.

40. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2008

On 31 May 2008, the Group disposed of its interests in 71% of equity share capital of a subsidiary, Wels International Company Limited, for a consideration of HK$1,100,000, resulting in a gain on disposal of approximately HK$224,000.

On 31 May 2008, the Group had disposed of 750 shares in Express Advantage, a wholly-owned subsidiary of the Company, representing 75% of the equity interests in Express Advantage to an independent third party for a consideration of USD750. The disposal had resulted in no gain or loss. Upon completion, the Group held a 25% equity interest in Express Advantage and accounted for such equity holding as interest in associates.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

40. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2008 (Continued)

On 25 September 2008, the Group disposed of its entire interests in PME International (BVI) Company Limited and its wholly-owned subsidiary, Unison Base Investment Limited at a consideration of HK$3,022,000, resulting in a gain on disposal of approximately HK$5,591,000.

The net assets (liabilities) of the subsidiaries disposed of at the respective dates of disposal were as follows:

	Wels	Express Advantage	PME (BVI)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Net assets (liabilities) disposed:				
Property, plant and equipment	–	–	19,451	19,451
Debtors, deposits and prepayments	2,654	–	71	2,725
Taxation recoverable	–	–	1	1
Deposits placed with financial institutions	–	26,360	–	26,360
Bank balances and cash	508	–	–	508
Creditors and accruals	(1,758)	(26,352)	(21,368)	(49,478)
Taxation payable	–	–	(349)	(349)
Deferred taxation	–	–	(375)	(375)
	1,404	8	(2,569)	(1,157)
Translation reserve realised	(156)	–	–	(156)
Minority interests	(372)	–	–	(372)
Transfer to interests in associates	–	(2)	–	(2)
Gain on disposal	224	–	5,591	5,815
Total consideration	1,100	6	3,022	4,128
Satisfied by:				
Cash	1,100	–	3,022	4,122
Other receivables	–	6	–	6
	1,100	6	3,022	4,128
Net cash inflow arising on disposal				
Cash consideration	1,100	–	3,022	4,122
Bank balances and cash disposed of	(508)	–	–	(508)
	592	–	3,022	3,614

The subsidiaries disposed of during the year contributed approximately HK$7,395,000 to the Group's net operating cash flows and had no significant impact on the Group's investing and operating cash flows.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

40. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2007

On 31 December 2007, the Group disposed of a subsidiary, Peaknice Investment Limited ("Peaknice") in which it holds 100% equity interests in Best Time and 61% equity interests 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:	
Debtors, deposits and prepayments	87
Deposits and prepayments	132
Cash and bank balances	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)

The subsidiaries disposed of during the year paid approximately HK$439,000 to the Group's net operating cash flows, paid approximately HK$90,000 in respect of investing activities and contributed approximately HK$546,000 in respect of financing activities.

41. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was HK$527,000 (2007: HK$575,000). The property has committed tenants for the next 2 years.

At the balance sheet date, the rental yield for the year ended 31 December 2008 is 16% (2007: 20%) The Group had contracted with tenants for the following future minimum lease payments:

	2008	2007
	HK$'000	*HK$'000*
Within one year	–	412
In the second to fifth year inclusive	–	103
	–	515

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

41. OPERATING LEASES (Continued)

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 premises which fall due as follows:

	2008	2007
	HK$'000	*HK$'000*
Within one year	**4,140**	2,681
In the second to fifth year inclusive	**2,099**	2,967
	6,239	5,648

Leases were negotiated for a term of two years with fixed rentals over the term of the lease.

42. 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 approximately HK$703,000 (2007: HK$568,000).

43. 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$2,529,000 (2007: HK$326,000).

During the year, the Group had received interest income of approximately HK$200,000 on a loan amounted to HK$7,000,000 granted to ZZNode. The loan receivable was unsecured, bearing interest at 5.25% per annum and had been fully repaid during the year ended 31 December 2008.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

44. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2008, the Group had disposed of and subsequent repurchased 75% equity interests in Express Advantage, a formerly wholly-owned subsidiary of the Company for a consideration of USD750. No consideration had been received from or paid to the contracted party.

During the year ended 31 December 2007, 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.

During the year ended 31 December 2007, the Group assigned the loan receivable and the corresponding accrued interest receivable totaling 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 risks and rewards of receivable and discharged the obligation to the liabilities without recourse. The financial assets and liabilities are therefore derecognised and loss on assignment of approximately HK$531,000 has been recorded in the consolidated income statements of the Group.

45. POST BALANCE SHEET EVENTS

On 18 February 2009, Top Good Holdings Limited ("Top Good"), a wholly-owned subsidiary of the Company, entered into the placement agreement with a placing agent to subscribe the convertible bonds of China Fortune Group Limited ("China Fortune"), a listed company in the Main Board of the Stock Exchange, at a principal amount of HK$11,500,000 and with an initial conversion price of HK$0.10 per share of China Fortune Group Limited. Details of which are set out in the Company's announcement dated 24 February 2009.

After the balance sheet date and up to the date of this report, Top Good acquired 53,738,000 China Fortune's shares through the open market at a total consideration of approximately HK$12,652,000. The acquisition represents approximately 7.10% of the entire issued share capital of China Fortune.

On 12 March 2009, the Group and Vital-Gain Global Limited, an independent third party, entered into an agreement for the disposal of the Group's holding of 500,000,000 shares in China Bio-Med, representing approximately 21.92% of the entire issued share capital of China Bio-Med as at 12 March 2009, for a consideration of HK$60,000,000. The remaining shares held will be accounted for as available-for-sale investments. Details of which are set out in the Company's announcement dated 18 March 2009.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2008 and 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 2008	2007	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	**100%**	100%	Trading of polishing materials and equipment
PME International (BVI) Company Limited	British Virgin Islands ("BVI")	Ordinary shares US$30,000	**–**	100%	Investment holding
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(note d)* Ordinary shares HK$100,000	**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%	Trading of polishing materials
Sunbright Asia Limited	BVI	Ordinary shares US$1,000	**100%**	100%	Investment holding
One Express Group Limited	BVI	Ordinary shares US$1,000	**100%**	–	Investment holding
Treasure Star Trading Limited	Hong Kong	Ordinary share HK$1	**100%**	100%	Investment
Top Good Holdings Limited	Hong Kong	Ordinary share HK$1	**100%**	100%	Investment
Betterment Enterprises Limited	BVI	Ordinary shares US$10,000	**99.49%**	–	Investment holding

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2008

46. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(a) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. which operate in the PRC, 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.

(d) The 5% non-voting deferred shares of HK$10 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.

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 31 December 2008 or at any time during the year.

Financial **Summary**

RESULTS

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	163,640	191,964	235,226	258,884	**211,256**
Cost of sales	(105,287)	(151,113)	(191,859)	(222,819)	**(200,003)**
Gross profit	58,353	40,851	43,367	36,065	**11,253**
Other income, gain and loss	866	4,037	2,597	5,522	**8,120**
Selling and distribution expenses	(7,886)	(12,879)	(12,367)	(11,603)	**(10,676)**
Administrative expenses	(26,584)	(25,242)	(25,902)	(56,913)	**(71,088)**
Reversal of revaluation decrease on leasehold land and buildings previously charged to the consolidated income statement	554	895	320	–	**–**
Decrease in fair value of investment property	–	–	–	–	**(694)**
Gain (loss) on disposal of subsidiaries	–	–	–	(186)	**5,815**
Gain on disposal of held-for-trading investments	–	–	–	–	**24,907**
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	–	–	–	–	**154,465**
Impairment loss recognised in respect of available-for-sale investments	–	–	–	–	**(199,500)**
Impairment loss recognised in respect of goodwill on acquisition of an associate	–	–	–	–	**(43,674)**
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	–	–	–	–	**(161,008)**
Decrease in fair value of held-for-trading investments	–	–	–	–	**(15,792)**
Share of results of associates	–	–	–	–	**29,943**
Share of result of a jointly controlled entity	–	–	–	(154)	**172**
Finance costs	(896)	(750)	(1,348)	(2,027)	**(1,163)**
Profit (loss) before taxation	24,407	6,912	6,667	(29,296)	**(268,920)**
Taxation	(3,169)	(1,754)	(1,165)	556	**528**
Profit (loss) for the year	21,238	5,158	5,502	(28,740)	**(268,392)**

Financial Summary (Continued)

ASSETS AND LIABILITIES

	As at 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	258,224	264,031	275,319	916,931	**721,663**
Total liabilities	(25,517)	(28,031)	(34,485)	(41,069)	**(90,432)**
Equity	232,707	236,000	240,834	875,862	**631,231**