東方明珠創業有限公司
# Pearl Oriental Innovation Limited

Stock Code: 0632

Annual Report 2008

# Contents

# Corporate Information

## DIRECTORS

### Executive Directors:

Wong Yuk Kwan (alias: Wong Kwan) *(Chairman)*
Cheung Kwok Yu
Zhou Li Yang
Zheng Yingsheng
Johnny Yuen

### Independent Non-executive Directors:

Dong Zhixiong
Fung Hing Chiu, Cyril
Lam Ka Wai, Graham

## SOLICITORS

Hastings & Co.
Lau Kwong & Hung

## PRINCIPAL BANKERS

Hang Seng Bank
Industrial and Commercial Bank of China (Asia) Limited

## COMPANY SECRETARY

Cheung Kwok Yu

## AUDITORS

Cachet Certified Public Accountants Limited

## AUTHORISED REPRESENTATIVES

Wong Kwan
Cheung Kwok Yu

## REGISTERED OFFICE:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## PRINCIPAL OFFICE:

Suite 1908, 19th Floor
9 Queen's Road Central
Hong Kong

## BERMUDA RESIDENT REPRESENTATIVE

John C.R. Collis

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
2 Church Street
Hamilton HM11
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## WEBSITE AND OTHER INFORMATION

For more information on the Company, please find us on the website at www.pearloriental.com

To access the Company on Bloomberg, please type "632: HK".

# Financial Highlights

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| **For the year/period** | | |
| Turnover | **78,783** | 55,620 |
| Operating loss | **(20,599)** | (23,531) |
| Net (loss)/profit attributable to shareholders | **(38,310)** | 38,422 |
| | | |
| (Loss)/earnings per share | | |
| Basic (cents) | **(8.5)** | 10 |
| Diluted (cents) | **N/A** | N/A |
| | | |
| Average shareholders' equity | **491,622** | 447,936 |
| Average capital employed | **574,419** | 480,651 |
| | | |
| **At 31 December** | | |
| Total indebtedness | **60,380** | 64,416 |
| Shareholders' equity | **521,943** | 476,245 |
| Capital employed | **615,278** | 533,560 |
| | | |
| **Ratio** | | |
| Return on average capital employed (%) | **(7.2%)** | 6.9% |
| Return on average equity (%) | **(7.8%)** | 8.6% |
| Total debt to total capital (%) | **15%** | 12% |

Notes:

1. Total indebtedness = total bank borrowings

2. Capital employed = shareholders' funds + minority interests + non-current liabilities

3. Return on average capital employed = operating (loss) profit after tax and interest/average capital employed

4. Return on average equity = net (loss) profit attributable to shareholders/average shareholders' equity

5. Total debt to total capital = debt/(shareholders' funds + minority interests + debt)

# Chairman's Statement

2008 is an unforgettable year during which an unprecedented global financial tsunami brought traumatic impact to economies around the world. Apart from this, Pearl Oriental Innovation Limited also needs to confront with an unilateral and unreasonable termination of joint venture agreement by the joint venture partner, causing an adverse turnaround to its results.

As at 31 December 2008, the turnover of the Company and its subsidiaries (collectively the "Group") was approximately HK$78,783,000, representing an increase of 41.6% in turnover as compared with the nine months period last year. The loss attributable to equity shareholders of the Company was approximately HK$38,310,000. Such loss was mainly attributed to various litigations, due to which the income generated from the coal business of China Coal Energy Holdings Limited ("China Coal"), our 39.93% equity interest owned company, was not reflected in the income statement despite the surge in domestic market average selling price of coal experienced last year. Moreover, the share of annual profit after tax of HK$80,000,000 guaranteed by the joint venture partner was unable to realize as a result of the litigations. After the Company's share placement at the beginning of last year, the Group's net asset increased to HK$521,943,000, representing an increase of 9.6%.

Due to the destructive impacts of the financial tsunami, our subsidiary Guangzhou Pearl Oriental Logistics Limited ("GZPO") recorded material operating loss from the development of e-commerce logistics. It is expected that substantial resources has to be invested and loss will be sustained in the coming year. To preserve cash, management acted decisively to dispose of its 60% equity interest in GZPO in January 2009, which will realize HK$3,000,000 in cash and convertible bonds of HK$9,000,000 will be paid, thereby the Group will be better positioned after its business reorganization.

Our wholly-owned subsidiary Pearl Oriental Warehouse (Shenzhen) Ltd. ("Pearl Oriental Warehouse") operated steadily and its secured mortgage bank loans of approximately HK$58,000,000 remained outstanding. In order to reduce the Group's bank borrowings, enhance our liquidity and to counteract risk effectively, we are currently studying a proposal to restructure the property assets.

The Group has increased its equity interest in Euro Resources China Limited ("Euro Resources") to 80% in November last year. Loss had been recorded for this plastic recycling business as it is in the stage of equipment enhancement and production capacity expansion. The plunge in global oil price triggered plastic market adjustments, but the price of recycled plastics rebounded in the recent months. In the long run, potential exists for the business development of Euro Resources.

The litigations of China Coal are still in progress. According to the professional legal advices of our PRC and Hong Kong lawyers, the Company is confident about the chance of winning the lawsuits and have recourse to dividends of HK$80,000,000 in total for the year of 2007 and 2008 from the defaulting party. Management will implement all effective and beneficial measures to safeguard the interest of the Group's investment in China Coal.

The Board is extremely pleased that during the challenging period of the financial tsunami, our controlling shareholder Orient Day Developments Limited ("Orient Day") continues to provide strong support to the Group. In April 2009, it has been approved in a special general meeting to issue Convertible Notes of HK$45,000,000 in aggregate to Orient Day in order to enhance the Group's financial strength.

Looking ahead, management will devote its best endeavors, acts prudently by adopting a stable yet flexible operation approach so as to attain the best interest for our shareholders. I would like to, on behalf of the Board, thank all of our staff for their hard working and diligence and our public shareholders for their whole hearted support.

By order of the Board
**Pearl Oriental Innovation Limited**
**Wong Kwan**
*Chairman and Chief Executive*

21 April 2009, Hong Kong

# Profiles of Directors and Senior Management

## PROFILES OF DIRECTORS

### Executive Directors

**Mr. Wong Kwan**

Aged 61, is currently the Chairman and Chief Executive of the Company, Mr. Wong is a veteran in the capital market, investment and property development fields and has over 30 years of experience in diversified investment, operation & management in Hong Kong, China and overseas. Mr. Wong is also well known in the Asian business world with extensive business connections in the Asia Pacific region. Mr. Wong is responsible for the overall strategic planning and business development of the Company.

**Mr. Cheung Kwok Yu**

Aged 39, has over 18 years of experience with international accounting firms and law firms and listed companies in direct investment, accounting, legal, corporate finance and mergers and acquisitions. Mr. Cheung is a Chartered Financial Analyst charterholder and a professional accountant in Hong Kong, and is also qualified as a solicitor in Hong Kong. Mr. Cheung has a Master degree in Applied Finance from Macquarie University in Sydney and a Bachelor of Arts degree in Accountancy from Hong Kong Polytechnic University. Mr. Cheung is responsible for the implementation of legal and financial matters of the Group.

**Mr. Zhou Li Yang**

Aged 50, is currently the Managing Director of the Company. Mr. Zhou is responsible for execution of the strategic development and daily operation of the Group. Mr. Zhou has substantial experience in listed company management, mergers and acquisitions, direct investment, corporate finance and fund management acquired from more than 10 years managerial and professional work experience for 5 listed companies, an investment fund and a banking institute of Hong Kong. He also has more than 10 years management working experience in a provincial government and a conglomerate of China. Mr. Zhou holds a Bachelor degree in Physics from Central-South University, PRC and a Master degree in Business/Finance from University of Baltimore, USA.

**Mr. Zheng Yingsheng**

Aged 48, has had over 26 years working experience in logistics management and transportation operations. Mr. Zheng is responsible for overseeing the logistics business of the Group. He had worked for several sizeable and reputable transportation and logistics companies at senior management level being respectively in charge of land transportation, ocean cargo forwarding, warehouse management, fleet management and container terminal operations, etc. He is particularly experienced in transportation and logistics work flow and systems designs and management. Mr. Zheng holds a Bachelor of Economics degree in Marine Economics from School of Economics & Management, Shanghai Maritime University and a Diploma in Business Administration from Zhejiang University, the PRC.

**Mr. Johnny Yuen**

Aged 63, American Chinese, he is one of the management experts in the first group whom came back to China at the end of 1985. He has more than 30 years of hotel, property investment and management experiences. He is currently the Chairman of Renel Group Co. Ltd and also the Chairman of the Les Amis d'Escoffier Society, Asia-Pacific region. Mr. Yuen also serves as the life member of US Republican Presidential Task Force. He has been awarded successively with the "Foreign Expert Friendship Award of People's Republic of China" and the "Outstanding Contribution Award of Guangzhou City" etc.

# Profiles of Directors and Senior Management

### Independent Non-executive Directors

**Mr. Dong Zhixiong**

Aged 62, has 41 years solid experience in metallurgy, steel industry and mining operation. He has joined China Metallurgy Import and Export Company in 1982 and become the General Manager of one of its mining subsidiaries. Mr. Dong has subsequently been promoted to the Vice President of China Sinosteel Group Company and be responsible for its investments in international resources, development and supervision. Mr. Dong has also been the Chairman of ASA Metal Co. Ltd, the largest mining company for chromate mines in South Africa for 10 years. Mr. Dong has graduated from the Faculty of Automatization of University of Science and Technology of Beijing (formerly known as Beijing Institute of iron and Steel Engineering) and has a bachelor degree in Industrial Studies.

**Mr. Fung Hing Chiu, Cyril**

Aged 69, is a prominent international and Hong Kong entrepreneur. Mr. Fung graduated from Harvard Graduate School of Business Administration with an Master Degree in Business Administration in 1965. He had worked for Morgan Guaranty Trust in New York head office and Bank of East Asia. Mr. Fung was the Managing Director of Fung Ping Fan Holdings. He was also the Co-founder and Chairman of the first venture capital fund in Asia, Inter-Asia Management Co. Ltd. and succeeded in bringing McDonald's to Hong Kong and Singapore. Mr. Fung's strong strategic sense, proven value-enhancement expertise and very diverse business experience made him a distinct business investment consulting professional.

**Mr. Lam Ka Wai, Graham**

Aged 41, graduated from the University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. He is currently a Managing Director and Head of Corporate Finance of an investment bank and has around 15 years experience in investment banking as well as around 4 years experience in accounting and auditing. He is also an independent non-executive director of Cheuk Nang (Holdings) Limited (stock code: 131), Applied Development Holdings Limited (stock code: 519), China Fortune Group Limited (stock code: 290), ZZNode Technologies Company Limited (stock code: 2371) and Artfield Group Limited (stock code: 1229), companies listed on the Main Board of The Stock Exchange of Hong Kong Limited; and China Railway Logistics Limited (stock code: 8089), a company listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

## PROFILES OF SENIOR MANAGEMENT

### Plastic Recycling Industry

**Mr. Ricardo Tsao**

Aged 60, is a senior banker and has almost 30 years of banking, financial institution operations, mergers & acquisitions and financing activities experiences. He held various senior positions such as Vice President, Senior Vice President, Deputy General Manager and Managing Director in different departments in Overseas Trust Bank (now renamed DBS Bank Hong Kong), the Daiwa Bank, the Hongkong Chinese Bank Ltd (existing CITIC Ka Wah Bank), and Lippo Group Marketing Ltd. In 1980s, Mr. Tsao accepted the invitations from the training centres of Hong Kong Management Association (HKMA), Bank of China and United Overseas Bank, Singapore to deliver the training experiences of banking services. Mr. Tsao is currently the Executive Director and CEO of Euro Resources China Ltd.

### Accounting and Finance

**Mr. Yu Kin Wing**

Aged 37, is the Finance Manager and Assistant Company Secretary of the Company. Mr. Yu obtained his bachelor of business administration degree in accounting from the Hong Kong University of Science and Technology and his master of business administration in the University of South Australia. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has extensive knowledge in the accounting field and had worked for several Hong Kong listed companies before joining the Group.

# Management Discussion and Analysis

## RESULTS AND REVIEW OF OPERATION

For the year ended 31 December 2008 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated turnover of HK$78,783,000 (2007: HK$55,620,000), implying an annualized increase of approximately 6%. The share of loss from associated companies for the Year was HK$12,752,000 (2007: profit of HK$61,884,000). Basic loss per share was 8.5 HK cents for the Year as compared to the basic profit per share of 10 HK cents for the period ended 31 December 2007.

## BUSINESS REVIEW

The global economic downturn has impacted the entire export and logistics industries substantially, and in turn, our business. The loss attributable to shareholders for the Year amounted to HK$38,310,000 (2007: profit of HK$38,422,000), such charges were due to mainly less contribution from associates. The gross profit margin has increased from 27.6% in 2007 to 35.1% during the Year.

## LOGISTICS

Logistics is still the major source of revenue for the Group. For the year ended 31 December 2008, the warehouse operations of Pearl Oriental Logistics (Shenzhen) Limited still have steady growth. While Guangzhou Pearl Oriental Logistics Limited ("GZPO") has focused in the e-commerce logistics but suffered losses of which the Group has disposed subsequent to the year end date at a consideration of cash HK$3,000,000 together with convertible bonds of HK$9,000,000 (the "Convertible Bonds").

The board of Directors of the Company (the "Board") believes that it will be in the interest of the Group to concentrate its effort in the energy and natural resources sectors, and the further investment in GZPO will be very substantial before they can become profitable businesses. The Board also believes the Convertible Bonds may provide to the Group with an opportunity to share the capital gain (if any) should the business of GZPO can turnaround in the future. The disposal represented a good opportunity for the Group to realize GZPO and to strengthen the financial position of the Group.

## PLASTIC RECYCLING INDUSTRY

The Group has increased its equity interests in Euro Resources China Limited ("Euro Resources") to 80% during the Year. This plastic resources recycling project has development potential and also its products have huge demand in the PRC market and the management will also explore opportunities of expanding its market for plastic to North America, other Asian Countries like Korea and etc. The Group expected that Euro Resources will have contribution from Year 2009 as another source of revenue of the Group.

Reference is made to the Company's circular dated 27 November 2008, Mr. Laurent Kim (a former director and the founder of Euro Resources) and Mr. Ung Phong have failed to honour and perform the profit guarantee of Euro 4 million per year for years 2007 to 2009 due to their own personal reasons, and the Group has no other choice but to dispose of Mr. Laurent Kim's 30% equity interest in Euro Resources which has been pledged to the Group as collateral for the performance of the Profit Guarantee by way of a private tender through an independent sale agent of the private tender appointed by the Group. As a result, a wholly owned subsidiary of the Group, has completed the acquisition of the 30% equity interest in Euro Resources through the private tender at a consideration of HK$9,800,000 (of which the Group needed not to settle by cash and has actually been set off against the profit guarantee from Mr. Laurent Kim).

During the Year, Euro Resources has already invested over HK$10,000,000 to acquire new machineries in order to improve its product quality and production capacity.

Despite the recent drops in demand and prices of waste materials as a result of the financial tsunami and sharp decrease in oil price, the Board is confident in the long term development potential of recycling business of waste plastic since the demand in the PRC for such recycled plastic raw material which can serve to reduce manufacturing costs will continue to be high in the long run, and therefore the Company is willing to increase its stake and gain the control in Euro Resources.

# Management Discussion and Analysis

## OUTLOOK

The current financial tsunami has taught us that the Group needs to do more to safeguard our future and to prepare ourselves for the impacts of the global economic crisis.

The Directors believe that the Company's issue of two tranches of convertible notes of HK$30,000,000 and HK$15,000,000, totaling HK$45,000,000, which has been recently approved by the Company's independent shareholders in April 2009, to Orient Day Developments Limited ("Orient Day") (a company wholly owned by Mr. Wong Kwan) can improve the Group's financial position.

We are confident that the Group will effectively manage through the turbulent economic times and emerge as a more health company which is positioned to take advantage of business opportunities in the future.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with internally generated resources and loan facilities granted by principal bankers in the PRC and Hong Kong. As at 31 December 2008, the Group's gearing ratio had decreased to 9% (calculated on the basis of the Group's bank borrowings over total assets) from 10% as at 31 December 2007. At the Year end date, the Group's total bank borrowings amounted to HK$60,000,000 (2007: HK$64,000,000), which was secured by certain properties of the Group located in the PRC and the trade receivables of a subsidiary. The Group has adopted a conservative approach to financial risk management with limited borrowing during the Year. Furthermore, the Group's cash and bank balances as at 31 December 2008 have decreased to HK$15,787,000 from HK$31,617,000 as at 31 December 2007. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 0.89 as at 31 December 2008 (2007: 0.58).

During the year, the Group's bank loan facilities are subject to the fulfilment of covenants relating to certain capital requirements, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2008 and 2007, none of the covenants relating to drawn down facilities had been breached.

During the Year, the Group conducted its business transactions principally in Renminbi, Euro and Hong Kong dollars, or in the local currencies of the operating subsidiaries. The Directors considered that the Group had no significant exposure to foreign exchange fluctuations and believed it was not necessary to hedge against any exchange risk. Nevertheless, Management will continue to monitor the foreign exchange exposure position and will take any future prudent measure it deems appropriate.

## LITIGATIONS

The litigations of the Group are mentioned below:

(a) The Group had three pending litigation claims from the ex-directors of a disposed subsidiary Dransfield Holdings Limited ("DHL") who claim against the Group for a total sum of not less than HK$11,400,000. As disclosed in the Company's announcement dated 23 August 2005, the Company's interest in DHL was disposed of on 23 July 2005. It was alleged in these claims that by disposing of all its shares in DHL, the Company was evading liabilities and denying these claimants' benefits of the debts owned by DHL. Trial of one of these claims has been held in January 2009, the Company's legal advisers were of the opinion that the claims of the three plaintiffs in this case may not stand and accordingly, no liabilities have been provided by the Group as at the balance sheet date.

(b) It is a term and condition in the Subscription Agreements entered into by, inter alios, the Company and DiChain Holdings Limited ("DiChain Holdings"), being a former majority shareholder of the Company, on 22 February 2006 and an obligation (the "Obligation") for DiChain Holdings to pledge one billion Shares (or 20,000,000 Consolidated Shares of HK$0.50 each) upon completion of the Subscription Agreements, as collateral to compensate the Company of any economic loss (if any) arising from any breach of warranties (if any) provided by DiChain Holdings under the Subscription Agreements. As DiChain Holdings has not yet performed the Obligations under the Subscription Agreements, the Company issued a writ of summons against DiChain Holdings on 31 October 2006, inter alia, in respect of the breach of warranties given by DiChain Holdings under the Subscription Agreements. The Company obtained a summary judgment against DiChain Holdings on 13 December 2007 in respect of its nonperformance of obligations and breach of warranties under the Subscription Agreements. On 7 January 2008, China Minsheng Banking Corporation Limited (Shenzhen Branch) ("Minsheng Bank") applied to the court to join as the intervener of this case and has applied to the court for appeal, and Minsheng Bank obtained an order on 15 April 2008 that the appeal against the summary judgment entered by the Company on 13 December 2007 be allowed. The Company has obtained legal advice to further appeal after reviewing the judgment from the court and may consider to petition to the court for a winding order of DiChain Holdings in order to protect the interests of the Company.

(c) As announced by the Company on 12 August 2008, on 7 August 2008, Zhang Jingyuan (formerly know as Zhang Genyu ("Zhang")) issued and served a writ ("the Writ") in the High Court of Hong Kong against, inter alios, the Company, Champion Merry Investment Limited ("Champion"), a subsidiary of the Company and Mr. Wong Kwan, Chairman, Chief executive, executive director and also a majority beneficial shareholder of the Company, in which Zhang claimed, inter alios, against the Company and Champion for damages for alleged breaches of a Joint Venture Agreement dated 15 July 2006 (the "Joint Venture Agreement"), and Zhang also applied for an order that the Joint Venture Agreement and the Deed of Charge dated 25 October 2006 in favour of the Company in respect of all of Zhang's shares in China Coal Energy Holdings Limited ("China Coal") be rescinded. After considering opinion from the Company's legal advisors, the Company is of the view that all the claims in the Writ are of no substance and groundless, and the Board will strongly defend and has confidence to defeat such claims and the Company has issued counterclaim against Zhang, including without limitation, the dividend from China Coal of HK$80,000,000, damages for breaches of the Joint Venture Agreement and other relief.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the number of employees of the Group was about 950 (2007: 422). The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and traveling allowances and discretionary bonuses.

## FINANCIAL POSITIONS OF THE GROUP

As at 31 December 2008, the Group has outstanding bank loans in aggregate of approximately HK$60,000,000 (31 December 2007: HK$64,000,000).

## SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

During the year, the Group has increased its equity interests in Euro Resources to 80%, details are set out in note 33(a) to the financial statements.

## CONTINGENT LIABILITY

As at 31 December 2008, approximately HK$60,000,000 (31 December 2007: HK$64,000,000) of guarantee was given by the Company to banks in respect of banking facilities granted to a subsidiary of the Company. The extent of such facilities utilized by the subsidiary at 31 December 2008 amounted to approximately HK$60,000,000 (31 December 2007: HK$64,000,000).

## ASSETS PLEDGED

As at 31 December 2008, assets with an aggregate carrying value of approximately HK$100,000,000 (31 December 2007: HK$100,000,000) were pledged with banks as security for loan facilities granted to the Group.

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 21 June 2002, which enables the Company to grant share options to eligible persons as an incentive or reward for their contribution to the Group. The terms of the share option scheme fully comply with the provisions of Chapter 17 of the Listing Rules. No share options had been granted under the scheme during the Year. On 12 November 2008, all share options granted under the scheme were cancelled in accordance with an ordinary resolution of the Company's shareholders.

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 17 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2008 and its state of affairs of the Company and the Group at that date are set out in the financial statements on page 19 to 85.

The directors do not recommend the payment of a dividend for the Year.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2008, no aggregate amount of distributable reserves was available for distribution to equity shareholders of the Company.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

## SHARE CAPITAL

Details of the movements during the Year in the share capital of the Company are set out in note 30 to the financial statements.

## DIRECTORS

The directors of the Company during the Year and up to the date of this report were:

### Executive directors:

Wong Kwan
Chan Yiu Keung
Cheung Kwok Yu
Zhou Li Yang
Zheng Yingsheng
Johnny Yuen

Subsequent to the balance sheet date on 6 February 2009, Mr. Chan Yiu Keung was resigned as an executive director of the Company.

### Independent non-executive directors:

| | |
|---|---|
| Dong Zhixiong | |
| Fung Hing Chiu, Cyril | |
| Lai Shi Hong, Edward | (resigned on 3 October 2008) |
| Lam Ka Wai, Graham | (appointed on 3 October 2008) |

# Directors' Report

In accordance with Clauses 86 and 87 of the Company's Bye-Laws, Mr. Cheung Kwok Yu, Mr. Zheng Yingsheng, Mr. Fung Hing Chiu, Cyril and Mr. Lam Ka Wai, Graham will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other remaining directors continue in office. Other than as disclosed above, no director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 5 and 6 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

None of the executive directors of the Company has each entered into a service contract with the Company. All the above-mentioned service contracts are continuous until terminated by either party giving to the other not less than six months notice in writing or otherwise in accordance with its terms.

Apart from the foregoing, 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.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2008, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### Long positions

*(a) Ordinary shares of HK$0.10 each of the Company*

| | Number of Shares held in the Capacity of | | | | | |
|---|---|---|---|---|---|---|
| **Name of Directors** | **Beneficial owner** | **Family interest** | **Held by controlled corporation** | **Held by trust** | **Total number of Shares held** | **Percentage of the issued share capital of the Company** |
| Wong Kwan (note) | 180,000 | – | 261,579,800 | – | 261,759,800 | 56.32% |
| Johnny Yuen | 640,000 | – | – | – | 640,000 | 0.14% |
| Fung Hing Chiu, Cyril | – | – | – | 1,272,090 | 1,272,090 | 0.27% |

Note: These shares were held by Orient Day Developments Limited, which is wholly-owned by Mr. Wong Kwan.

## SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, as at 31 December 2008, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

### Long positions

| Name of substantial shareholder | Capacity | Number of issued ordinary shares held | Percentage of issued share capital of the Company |
|---|---|---|---|
| Orient Day Developments Limited (note) | Beneficial owner | 261,759,800 | 56.32% |

Note: Orient Day Developments Limited is wholly owned by Mr. Wong Kwan.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2008.

## APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

## EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights, under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## RELATED PARTY TRANSACTIONS

Details of the significant related party transactions during the year ended 31 December 2008 are detailed in note 37 to the financial statements.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest customers and five largest customers taken together accounted for 28.5% and 58.9% respectively of the Group's total sales for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 9.5% and 18.0% respectively of the Group's total purchases for the year.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the Year ended 31 December 2008.

## POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 39 to the financial statements.

## AUDITORS

The financial statements for the year ended 31 March 2007 and for the period from 1 April 2007 to 31 December 2007 were audited by KPMG.

During the year, KPMG who acted as auditors of the Company for the past year has resigned, Cachet Certified Public Accountants Limited has been appointed as auditors of the Company. A resolution will be submitted to the annual general meeting of the Company to re-appoint, Cachet Certified Public Accountants Limited as auditors.

By Order of the Board

**Cheung Kwok Yu**
*Executive Director & Company Secretary*
21 April 2009

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of Directors of the Company (the "Board") is committed to achieving high standard of corporate governance. In the opinion of the Board, the Company has complied throughout the year ended 31 December 2008 (the "Year") with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which was in force on 1 January 2005, save for the following:

(a) The Chairman and the Managing Director are not subject to retirement by rotation pursuant to Bye-laws of the Company.

(b) Pursuant to Bye-law 87(1) of the Company, at each annual general meeting one-third of the Directors for the time being, (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation provided that, the Chairman of the Board and/or the Managing Director of the Company shall not whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard set out in the Model code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the Year.

## BOARD OF DIRECTORS

The Board is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value. It is responsible for the formulation and the approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, and supervision of management in accordance with the governing rules. The management of the Company is responsible for the oversight of the realization of the objectives set by the Board and the day-to-day operations of the Group.

As at 31 December 2008, the Board comprises nine members, six of whom are executive directors, and three are independent non-executive directors. One-third of the Board is independent non-executive directors and more than one of them have appropriate professional qualifications or accounting or related financial management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

# Corporate Governance Report

During the Year, 2 board meetings have been held, the attendance of each Director, on named basis and by category at Board meetings, Audit Committee meetings is set out below:

| | Meetings attended/held | |
|---|---|---|
| | Board Meetings | Audit Committee Meetings |
| **Executive Directors:** | | |
| Wong Kwan *(Chairman & Chief Executive)* | 2/2 | N/A |
| Chan Yiu Keung (Note 3) | 1/2 | N/A |
| Cheung Kwok Yu | 2/2 | N/A |
| Zhou Li Yang | 2/2 | N/A |
| Zheng Yingsheng | 1/2 | N/A |
| Johnny Yuen | 1/2 | N/A |
| **Independent Non-executive Directors:** | | |
| Dong Zhixiong *(Member of Audit Committee)* | 1/2 | 1/2 |
| Fung Hing Chiu, Cyril *(Member of Audit Committee)* | 2/2 | 2/2 |
| Lai Shi Hong Edward (Note 1) | 2/2 | 2/2 |
| Lai Ka Wai, Graham *(Chairman of Audit Committee)* (Note 2) | 0/0 | 0/0 |

Notes:

(1) Resigned on 3 October 2008;

(2) Appointed on 3 October 2008

(3) Resigned on 6 February 2009

To the best knowledge of the Board, there is no relationship (including financial, business, family or other relationship) among members of the Board as at 31 December 2008. All of them are free to exercise their individual judgments.

## Chairman and Managing Director

For the Year, Mr. Wong Kwan, the Chairman and Mr. Zhou Li Yang, the Managing Director, had segregated and clearly defined roles.

## Remuneration of Directors

The Remuneration Committee has 3 members, comprising Messrs. Dong Zhixiong, Fung Hing Chiu, Cyril and Lam Ka Wai, Graham, all independent non-executive directors. The Remuneration Committee is chaired by Lam Ka Wai, Graham.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

## Nomination of Directors

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing directors.

The notice of annual general meeting contains detailed information on election of directors including detailed biography of all directors standing for election or re-election to enable shareholders to make an informed decision on their election.

### Internal Control

The Board acknowledges its responsibility to ensure that a sound and effective internal control system, which serves as an integral part of the Company's management system, is maintained. The Board is responsible for approving and reviewing internal control policy, while the responsibility of day-to-day management of operational risks and implementation of mitigation measures lies with the management. An internal control system is designed to provide reasonable, but not absolute, assurance that material misstatement or loss can be avoided, and to manage and minimise risks of failure in operational systems. Key control procedures include:

- establishing a structure with defined authority and proper segregation of duties
- monitoring the strategic plan and performance
- designing an effective accounting and information system
- encouraging internal reporting on serious concern about malpractice
- conducting internal independent review by internal audit function

The Company places great value upon creating an environment where employees maintain the highest standard of integrity. To this end, the Board encourages the raising of concerns by employees about internal malpractice directly to the Board which will review complaints and decide how the investigation should be conducted.

## AUDITORS' REMUNERATION

For the year ended 31 December 2008, Cachet Certified Public Accountants Limited, the existing external auditors provided the following services to the Group:

| | 2008<br>HK$'000 |
|---|---|
| Annual audit services | |
| – Annual audit | 750 |

## AUDIT COMMITTEE

As at 31 December 2008, the Audit Committee currently comprises the three independent non-executive directors, namely Mr. Lai Ka Wai, Graham (Chairman of the Audit Committee), Mr. Dong Zhixiong and Mr. Fung Hing Chiu, Cyril. The Audit Committee held two meetings during the Year. The Audit Committee is provided with sufficient resources to discharge its duties. The terms of reference of the Audit Committee follow the guidelines set out in the CG Code. The principal duties of the Audit Committee include the review of the financial reporting and internal control system of the Group, review of half-yearly and annual reports and accounts, review and monitor the appointment of the auditors and their independence.

The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2008.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements.

The statement of the external auditors of the Company, Cachet Certified Public Accountants Limited, with regard to their reporting responsibilities on the Company's financial statements is set out in the Independent Auditor's Report on page 18.

# Independent Auditors' Report

**Cachet Certified Public Accountants Limited**
德揚會計師事務所有限公司

13F, Neich Tower, 128 Gloucester Road, Wanchai, Hong Kong

**To the shareholders of Pearl Oriental Innovation Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements of Pearl Oriental Innovation Limited (the "Company") set out on pages 19 to 85, which comprise the consolidated and Company balance sheets 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 FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and 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.

**Cachet Certified Public Accountants Limited**
*Certified Public Accountants*

**Chan Yuk Tong**
Practising Certificate Number P03723

Hong Kong
21 April 2009

# Consolidated Income Statement

Year ended 31 December 2008

| | Notes | Year ended 31 December 2008 HK$'000 | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|---|
| **REVENUE** | 4, 5 | **78,783** | 55,620 |
| Cost of services provided | | **(51,095)** | (40,272) |
| **Gross profit** | | **27,688** | 15,348 |
| Other income and gains | 5 | **12,493** | 7,361 |
| Selling and distribution costs | | **(17,609)** | (7,175) |
| Administrative expenses | | **(43,171)** | (23,482) |
| Equity-settled share option expenses | | **–** | (4,126) |
| Finance costs | 7 | **(6,494)** | (4,125) |
| Impairment losses on assets held by a subsidiary | 10 | **–** | (11,457) |
| Share of (losses) and profits of associates | | **(12,752)** | 61,884 |
| **(LOSS)/PROFIT BEFORE TAX** | 6 | **(39,845)** | 34,228 |
| Tax | 11 | **(1,420)** | (1,103) |
| **(LOSS)/PROFIT FOR THE YEAR /PERIOD** | | **(41,265)** | 33,125 |
| **Attributable to:** | | | |
| Equity holders of the Company | 12 | **(38,310)** | 38,422 |
| Minority interests | | **(2,955)** | (5,297) |
| | | **(41,265)** | 33,125 |
| **DIVIDENDS** | | **Nil** | Nil |
| **(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | 13 | | |
| Basic | | **(8.5) cents** | 10.0 cents |
| Diluted | | **N/A** | N/A |

# Consolidated Balance Sheet

As at 31 December 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **NON–CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **165,331** | 100,156 |
| Prepaid land lease payments | 15 | **18,868** | 18,329 |
| Goodwill | 16 | **16,921** | – |
| Interests in associates | 18 | **420,903** | 460,490 |
| Deferred tax assets | 29 | **–** | 1,419 |
| Total non-current assets | | **622,023** | 580,394 |
| **CURRENT ASSETS** | | | |
| Inventories | 19 | **9,083** | – |
| Trade receivables | 20 | **10,250** | 15,313 |
| Prepayments, deposits and other receivables | 21 | **11,195** | 7,743 |
| Available-for-sales financial assets | 22 | **–** | – |
| Due from minority shareholders of subsidiaries | 23 | **–** | 11 |
| Due from associates | 18 | **5,593** | 9,930 |
| Cash and cash equivalents | 24 | **15,787** | 31,617 |
| Total current assets | | **51,908** | 64,614 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 25 | **8,767** | 9,800 |
| Other payables and accruals | 26 | **19,886** | 14,180 |
| Interest-bearing bank borrowings, secured | 27 | **8,382** | 7,101 |
| Loan from immediate parent and ultimate controlling party | 28 | **–** | 63,903 |
| Due to minority shareholders of subsidiaries | 23 | **5,167** | – |
| Tax payable | | **16,451** | 16,464 |
| Total current liabilities | | **58,653** | 111,448 |
| **NET CURRENT LIABILITIES** | | **(6,745)** | (46,834) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **615,278** | 533,560 |
| **NON-CURRENT LIABILITIES** | | | |
| Due to minority shareholders of subsidiaries | 23 | **16,337** | – |
| Interest-bearing bank borrowings, secured | 27 | **51,998** | 57,315 |
| Loan from immediate parent and ultimate controlling party | 28 | **25,000** | – |
| **Total non-current liabilities** | | **93,335** | 57,315 |
| **Net assets** | | **521,943** | 476,245 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | 30 | **46,474** | 193,641 |
| Reserves | 32 | **466,822** | 276,307 |
| | | **513,296** | 469,948 |
| **Minority interests** | | **8,647** | 6,297 |
| Total equity | | **521,943** | 476,245 |

**Zhou Li Yang**
*Director*

**Cheung Kwok Yu**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2008

| | Attributable to the equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital HK$'000 | Share premium account HK$'000 | Treasury shares HK$'000 (note 32(a)) | Capital reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 April 2007 | 190,821 | 334,666 | – | 425,364 | 4,997 | (529,924) | 425,924 | 1,818 | 427,742 |
| Issue of new shares | 2,820 | 11,844 | (14,664) | – | – | – | – | – | – |
| Disposal of treasury shares | – | (900) | 4,108 | – | – | – | 3,208 | – | 3,208 |
| Equity-settled share option arrangements | – | – | – | 4,126 | – | – | 4,126 | – | 4,126 |
| Share options expired under share option scheme | – | – | – | (9,060) | – | 9,060 | – | – | – |
| Increase in minority interests arising from acquisition of a subsidiary | – | – | – | – | – | – | – | 9,776 | 9,776 |
| Exchange realignment on translation of the accounts of foreign subsidiaries | – | – | – | – | (1,732) | – | (1,732) | – | (1,732) |
| Profit for the period | – | – | – | – | – | 38,422 | 38,422 | (5,297) | 33,125 |
| At 31 December 2007 and 1 January 2008 | 193,641 | 345,610 | (10,556) | 420,430 | 3,265 | (482,442) | 469,948 | 6,297 | 476,245 |
| Issue of new shares (note 30) | 38,728 | 38,728 | – | – | – | – | 77,456 | – | 77,456 |
| Share issue expenses | – | (330) | – | – | – | – | (330) | – | (330) |
| Capital reduction (note 30) | (185,895) | – | – | – | – | 185,895 | – | – | – |
| Cancellation of share options (notes 31 and 32(b)) | – | – | – | (16,579) | – | 16,579 | – | – | – |
| Increase in minority interests arising from acquisition of a subsidiary | – | – | – | – | – | – | – | 4,095 | 4,095 |
| Exchange realignment on translation of the accounts of foreign subsidiaries | – | – | – | – | 4,532 | – | 4,532 | 1,210 | 5,742 |
| Loss for the year | – | – | – | – | – | (38,310) | (38,310) | (2,955) | (41,265) |
| At 31 December 2008 | 46,474 | 384,008 | (10,556) | 403,851 | 7,797 | (318,278) | 513,296 | 8,647 | 521,943 |

# Consolidated Cash Flow Statement

Year ended 31 December 2008

| | Notes | Year ended 31 December 2008 HK$'000 | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| (Loss)/profit before tax | 6 | **(39,845)** | 34,228 |
| Adjustments for: | | | |
| Finance costs | 7 | **6,494** | 4,125 |
| Share of losses and (profits) of associates | | **12,752** | (61,884) |
| Interest income | 5 | **(171)** | (115) |
| Loss on disposal of property, plant and equipment | | **356** | 103 |
| Depreciation of property, plant and equipment | 14 | **5,664** | 3,231 |
| Amortisation of prepaid land lease payment | 15 | **473** | 395 |
| Impairment loss on trade receivables | 20 | **1,838** | – |
| Other receivables written off | | **1,206** | – |
| Write-back of other payables | | **(545)** | – |
| Written-off of property, plant and equipment | 14 | **7,716** | – |
| Shortfall in profit of an associate guaranteed by an ex-joint venture partner | 5, 33 | **(9,800)** | – |
| Impairment losses on assets held by a subsidiary | 10 | **–** | 11,457 |
| Equity-settled share option expenses | 6 | **–** | 4,126 |
| | | **(13,862)** | (4,334) |
| Increase in inventories | | **(1,881)** | – |
| Decrease in trade receivables | | **5,112** | 94 |
| Increase in prepayments, deposits and other receivables | | **(458)** | (2,338) |
| (Decrease)/increase in trade payables | | **(10,395)** | 7,211 |
| Decrease in other payables and accruals | | **(24,468)** | – |
| **Cash (used in)/generated from operations** | | **(45,952)** | 633 |
| Income tax paid | | **(1,721)** | (341) |
| **Net cash (outflow)/inflow from operating activities** | | **(47,673)** | 292 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | 5 | **171** | 115 |
| Purchases of items of property, plant and equipment | 14 | **(3,699)** | (1,572) |
| Net cash and cash equivalent inflow from acquisition of subsidiaries | 33 | **2,029** | 214 |
| Proceeds from disposal of treasury shares | | **–** | 3,309 |
| Proceeds from issue of shares | 30, 40 | **34,653** | – |
| Proceeds from disposal of items of property, plant and equipment | | **70** | – |
| Advances from/(to) associates | | **4,337** | (9,911) |
| **Net cash inflow/(outflow) from investing activities** | | **37,561** | (7,845) |

# Consolidated Cash Flow Statement

Year ended 31 December 2008

| | Notes | Year ended 31 December 2008 HK$'000 | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans | | **–** | 64,416 |
| Repayment of bank loans | | **(4,036)** | (60,178) |
| Repayment of other short-term loans | | **–** | (506) |
| Repayment from minority shareholders of subsidiaries | | **–** | 11 |
| Advance from minority shareholders of subsidiaries | | **4,008** | – |
| Advance from an immediate parent and ultimate controlling party | 28 | **3,570** | 34,348 |
| Interest paid | | **(6,444)** | (3,444) |
| Net cash (outflow)/inflow from financing activities | | **(2,902)** | 34,647 |
| **NET (DECREASED)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(13,014)** | 27,094 |
| Cash and cash equivalents at beginning of year/period | | **31,617** | 11,184 |
| Effect of foreign exchange rate changes, net | | **(2,816)** | (6,661) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD** | | **15,787** | 31,617 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **15,787** | 31,617 |

# Balance Sheet

As at 31 December 2008

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Interests in subsidiaries | 17 | **527,076** | 488,576 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | 21 | **80** | – |
| Available-for-sales financial assets | 22 | **–** | – |
| Cash and cash equivalents | 24 | **8,882** | 20,271 |
| Total current assets | | **8,962** | 20,271 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | 26 | **2,003** | 2,554 |
| Loan from an immediate parent and ultimate controlling party | 28 | **–** | 63,903 |
| **Total current liabilities** | | **2,003** | 66,457 |
| **NET CURRENT ASSETS /(LIABILITIES)** | | **6,959** | (46,186) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **534,035** | 442,390 |
| **NON-CURRENT LIABILITIES** | | | |
| Due to subsidiaries | 17 | **5,350** | 5,207 |
| Loan from an immediate parent and ultimate controlling party | 28 | **25,000** | – |
| Total non-current liabilities | | **30,350** | 5,207 |
| **Net assets** | | **503,685** | 437,183 |
| **EQUITY** | | | |
| Issued capital | 30 | **46,474** | 193,641 |
| Reserves | 32 | **457,211** | 243,542 |
| Total equity | | **503,685** | 437,183 |

**Zhou Li Yang**
*Director*

**Cheung Kwok Yu**
*Director*

## 1. CORPORATE INFORMATION

Pearl Oriental Innovation Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business in Hong Kong is situate at Suite 1908, 19/F., 9 Queen's Road Central, Hong Kong.

In the opinion of the directors, the Company's immediate parent and ultimate controlling party is Orient Day Developments Limited, a company incorporated in the British Virgin Islands with limited liability.

During the year, the Company is an investment holding company. The Group commenced its business of processing and sales recycling materials during the year by acquiring the control over Euro Resources China Limited, by increasing the Group's equity interests therein from 50% to 80%. The Group's principal activities during the year were:

- provision of logistics and related services; and
- processing and sales of recycling materials.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the" Listing Rules") on The Stock Exchange (the "Stock Exchange") of Hong Kong Limited and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the followings:

- buildings, which are stated in the balance sheet at valuation less accumulated depreciation and any impairment losses; and
- available-for-sales financial assets, which are stated at fair value.

These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Despite the fact that the Group had net current liabilities of HK$6,745,000 as at the balance sheet date, these financial statements have been prepared on the basis that the Group will continue to operate as a going concern. Such going concern basis is based upon the presumption of continuous financial support and funding from the immediate parent and ultimate controlling party of the Company. The Company's immediate parent and ultimate controlling party has indicated its willingness to continue financing the operations of the Group to meet its financial obligations as they fall due for the foreseeable future. In addition, subsequent to the balance sheet date, on 4 March 2009, the Company entered into a conditional subscription agreement with the immediate parent and ultimate controlling party for the issue of convertible notes with an amount up to HK$45,000,000, which will be applied partially for the settlement of the loan of HK$25,000,000 from the immediate parent and ultimate controlling party with the remaining balance as general working capital of the Group.

## 2.1 BASIS OF PREPARATION *(Continued)*

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from inter-company transactions and inter-company balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

| | |
|---|---|
| HKAS 39 and HKFRS 7 Amendments | Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets |
| HK(IFRIC)-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 |

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The principal effects of adopting these new and revised HKFRSs are as follows:

### (a) Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

### (b) HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

### (c) HK(IFRIC)-Int 12 Service Concession Arrangements

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

### (d) HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early adopted the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

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

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to reviewing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for annual periods ending on or after 30 June 2009
6 Effective for the transfer of Assets from Customer beginning on or after 1 July 2009
* Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised), HKAS 27 (Revised) and HKAS 23 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

### Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, goodwill and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, an individual referred to in (d) or (e).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment other than buildings are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Buildings are stated in the balance sheet at valuation less accumulated depreciation and any impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Buildings | Over the shorter of the lease terms and their estimated useful lives |
| Freehold land | Not depreciated |
| Leasehold improvements | Over the shorter of the lease terms and land use right or 5 years |
| Furniture, fixtures and equipment | 20% to 25% |
| Motor vehicles | $16^{2}/_{3}$% to $33^{1}/_{3}$% |

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading or these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest earned on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest earned are reported as interest income and is recognised in the income statement as "Other income and gain" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sales financial assets" and are transferred from the available-for-sale investment revaluation reserve.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments and other financial assets *(Continued)*

*Available-for-sale financial assets (Continued)*

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

### Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

*Assets carried at cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of financial assets *(Continued)*

*Available-for-sale financial assets*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investment when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade payables, other payables and accruals, amount due to a related company and interest-bearing bank borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expenses is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

*(i)* *Revenue from logistic services*

Revenue from the provision of logistic services is recognised when the services are rendered.

*(ii)* *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the lease asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

*(iii)* *Trading of recycling materials*

Revenue from the sale of goods is when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

*(iv)* *Interest income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

### Employee benefits

*Share-based payment transactions*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using Black-Scholes Option Pricing Model, further details of which are given in note 31 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that year.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits *(Continued)*

*Share-based payment transactions (Continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of the entity settled awards and has applied HKFRS 2 only to equity settled award granted after 7 November 2002 that had not been vested by 1 January 2005.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group’s subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

### Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

### Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

### Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effect, and is recognised as a deduction from total equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

### Judgment

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Contingent liabilities in respect of litigations and claims*

The Group has been engaged in a number of litigations and claims during the year. Contingent liabilities arising from these litigations and claims have been assessed by management with reference to legal advice. Provisions on the possible obligation, if appropriate, are made based on management's best estimates and judgments.

### Estimation uncertainty

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, are discussed below.

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was HK$16,921,000 (2007: Nil). More details are given in note 16.

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## 3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

### Estimation uncertainty *(Continued)*

*Impairment of available-for-sale financial assets*

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2008, no impairment losses of Nil have been recognised for available-for-sale assets (2007: Nil). The carrying amount of available-for-sale assets was Nil (2007: Nil).

*Depreciation and useful lives*

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technologies changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

*Valuation on buildings*

The Group performs annual review of the carrying amount of owned property with reference to the assumption that the properties are sold in the open market in its existing state without the benefit of deferred terms contract, leaseback and joint venture. Due to changes in market condition, carrying amount of owned properties may be different from estimation and profit or loss could be affected by differences in this estimation.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

In November 2008, the Group has extended its business to the processing and sales of recycling materials by acquiring the control in Euro Resources China Limited, by increasing the Group's equity interests therein from 50% to 80%, details which are stated in note 33(a) to the financial statements.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the logistics and related services segment is provision of logistic and related services; and

(b) the plastic recycling segment is processing and sales of recycling materials.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There are no sales or other transactions among business or geographical segments.

## 4. SEGMENT INFORMATION *(Continued)*

### (a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments for the year ended 31 December 2008.

**Year ended 31 December 2008**

| | Logistics and related services segment HK$'000 | Plastic recycling segment HK$'000 | Total HK$'000 |
|---|---|---|---|
| Segment revenue | | | |
| Services income | 66,928 | – | 66,928 |
| Gross rental income | 11,855 | – | 11,855 |
| Sales of recycling materials | – | – | – |
| | 78,783 | – | 78,783 |
| Segment results | (15,895) | (965) | (16,860) |
| Other income and gains | | | 12,493 |
| Unallocated expenses | | | (22,726) |
| Loss from operations | | | (27,093) |
| Finance costs | | | – |
| Share of losses of associates | | | (12,752) |
| Loss before tax | | | (39,845) |
| Tax | | | (1,420) |
| Loss for the year | | | (41,265) |
| Segment assets | 140,456 | 78,739 | 219,195 |
| Unallocated assets | | | 454,736 |
| Total assets | | | 673,931 |
| Segment liabilities | 95,644 | 8,060 | 103,704 |
| Unallocated liabilities | | | 48,284 |
| Total liabilities | | | 151,988 |
| Capital expenditure | 2,012 | 1,167 | 3,179 |
| Unallocated capital expenditure | | | 520 |
| | | | 3,699 |
| Depreciation and amortisation | 5,296 | 143 | 5,439 |
| Unallocated depreciation and amortisation | | | 698 |
| | | | 6,137 |

## 4. SEGMENT INFORMATION *(Continued)*

### (a) Business segments *(Continued)*

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments for the period from 1 April 2007 to 31 December 2007.

**Period from 1 April 2007 to 31 December 2007**

| | Logistics and related services segment HK$'000 | Plastic recycling segment HK$'000 | Total HK$'000 |
|---|---|---|---|
| Segment revenue | | | |
| Services income | 44,863 | – | 44,863 |
| Gross rental income | 10,757 | – | 10,757 |
| Sales of recycling materials | – | – | – |
| | 55,620 | – | 55,620 |
| Segment results | (3,512) | – | (3,512) |
| Other income and gains | | | 7,361 |
| Unallocated expenses | | | (31,505) |
| Loss from operations | | | (27,656) |
| Finance costs | | | – |
| Share of profits of associates | | | 61,884 |
| Profit before tax | | | 34,228 |
| Tax | | | (1,103) |
| Profit for the period | | | 33,125 |
| Segment assets | 150,824 | – | 150,824 |
| Unallocated assets | | | 494,184 |
| Total assets | | | 645,008 |
| Segment liabilities | 100,334 | – | 100,334 |
| Unallocated liabilities | | | 68,429 |
| Total liabilities | | | 168,763 |
| Capital expenditure | 1,375 | – | 1,375 |
| Unallocated capital expenditure | | | 197 |
| | | | 1,572 |
| Depreciation and amortisation | 3,492 | – | 3,492 |
| Unallocated depreciation and amortisation | | | 134 |
| | | | 3,626 |

## 4. SEGMENT INFORMATION *(Continued)*

### (b) Geographical segments

The following tables present revenue and certain assets and expenditure information for the Group's geographical segments for the year ended 31 December 2008 and for the period from 1 April 2007 to 31 December 2007:

| Year ended 31 December 2008 | Hong Kong HK$'000 | The PRC HK$'000 | France HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Segment revenue: | | | | |
| Services income | – | 66,928 | – | 66,928 |
| Gross rental income | – | 11,855 | – | 11,855 |
| Sales of recycling materials | – | – | – | – |
| | – | 78,783 | – | 78,783 |
| Other segment information: | | | | |
| Segment assets | 468,514 | 140,456 | 64,961 | 673,931 |
| Capital expenditure incurred during the year | 520 | 2,012 | 1,167 | 3,699 |

| Period from 1 April 2007 to 31 December 2007 | Hong Kong HK$'000 | The PRC HK$'000 | France HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Segment revenue: | | | | |
| Services income | – | 44,863 | – | 44,863 |
| Gross rental income | – | 10,757 | – | 10,757 |
| Sales of recycling materials | – | – | – | – |
| | – | 55,620 | – | 55,620 |
| Other segment information: | | | | |
| Segment assets | 77,564 | 567,444 | – | 645,008 |
| Capital expenditure incurred during the period | 197 | 1,375 | – | 1,572 |

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents services income from logistics and other services rendered and gross rental income during the year.

No revenue was derived from sales of recycling materials during the year.

An analysis of revenue, other income and gains is as follows:

| | **Year ended 31 December 2008 HK$'000** | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|
| **Revenue** | | |
| Services income | **66,928** | 44,863 |
| Gross rental income | **11,855** | 10,757 |
| Sales of recycling materials | **–** | – |
| Total revenue | **78,783** | 55,620 |
| **Other income and gains** | | |
| Bank interest income | **171** | 88 |
| Other interest income | **–** | 27 |
| Exchange gains, net | **1,763** | 6,629 |
| Write-back of other payables | **545** | – |
| Shortfall in profit of an associate guaranteed by an ex-joint venture partner (note 33(a)) | **9,800** | – |
| Others | **214** | 617 |
| Total other income and gains | **12,493** | 7,361 |
| Total revenue, other income and gains | **91,276** | 62,981 |

## 6. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

| | **Year ended 31 December 2008 HK$'000** | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|
| Cost of services provided* | **51,095** | 40,272 |
| Amortisation of prepaid land lease payments | **473** | 395 |
| Depreciation of property, plant and equipment | **3,112** | 3,231 |
| Written-off of property, plant and equipment | **7,716** | – |
| Minimum lease payments under operating leases: | | |
| land and buildings | **4,606** | 2,330 |
| Auditors' remuneration | | |
| – Current year | **750** | 1,469 |
| – Under-provided in the previous year | **140** | – |
| Impairment loss on trade receivables | **1,838** | – |
| Other receivables written off | **1,206** | 290 |
| Staff costs (including directors' remuneration (note 8)): | | |
| Wages and salaries | **24,132** | 10,883 |
| Equity-settled share option expenses | **–** | 4,126 |
| Pension scheme contributions | **179** | 619 |
| | **24,311** | 15,628 |
| Exchange gains, net | **(1,763)** | (6,629) |
| Bank interest income | **(171)** | (88) |

* The cost of services provided included depreciation of warehouse of approximately HK$2,552,000 (period ended 31 December 2007: Nil)

## 7. FINANCE COSTS

| | **Year ended 31 December 2008 HK$'000** | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|
| Interest on bank advances and other borrowings wholly repayable within five years | **5,362** | 1,775 |
| Interest on the other loans | **882** | 1,482 |
| Other borrowing costs | **250** | 868 |
| | **6,494** | 4,125 |

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year/period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Year ended 31 December 2008 HK$'000 | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|
| Fees | 1,051 | 1,124 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 3,896 | 1,079 |
| Pension scheme contributions | 60 | 60 |
| Equity-settled share option expenses | – | 3,060 |
| | 3,956 | 4,199 |
| | 5,007 | 5,323 |

**Year ended 31 December 2008**

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Equity-settled share option expenses HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Wong Kwan | – | 1,750 | – | 12 | 1,762 |
| Chan Yiu Keung (resigned on 6 February 2009) | 300 | – | – | 12 | 312 |
| Cheung Kwok Yu | – | 1,158 | – | 12 | 1,170 |
| Zhou Li Yang | – | 576 | – | 12 | 588 |
| Zheng Yingsheng | – | 412 | – | – | 412 |
| Johnny Yuen | 300 | – | – | 12 | 312 |
| | 600 | 3,896 | – | 60 | 4,556 |
| **Independent non-executive directors** | | | | | |
| Dong Zhixiong | 150 | – | – | – | 150 |
| Fung Hing Chiu, Cyril | 150 | – | – | – | 150 |
| Lai Shi Hong, Edward (resigned on 3 October 2008) | 114 | – | – | – | 114 |
| Lam Ka Wai, Graham (appointed on 3 October 2008) | 37 | – | – | – | 37 |
| | 451 | – | – | – | 451 |
| Total | 1,051 | 3,896 | – | 60 | 5,007 |

## 8. DIRECTORS' REMUNERATION *(Continued)*

**Period from 1 April 2007 to 31 December 2007**

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Equity-settled share option expenses HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Wong Kwan | 225 | – | 777 | 9 | 1,011 |
| Chan Yiu Keung | 225 | – | 324 | 9 | 558 |
| Cheung Kwok Yu | – | 400 | 324 | 9 | 733 |
| Zheng Yingsheng | – | 315 | 324 | 15 | 654 |
| Zhou Li Yang | – | 364 | 324 | 9 | 697 |
| Johnny Yuen | 225 | – | 987 | 9 | 1,221 |
| | 675 | 1,079 | 3,060 | 60 | 4,874 |
| **Non-executive director** | | | | | |
| Robert Fung Hing Piu (resigned on 1 June 2007) | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Dong Zhixiong (appointed on 8 October 2007) | 35 | – | – | – | 35 |
| Fung Hing Chiu, Cyril (appointed on 13 July 2007) | 70 | – | – | – | 70 |
| Lai Shi Hong, Edward (appointed on 26 July 2007) | 63 | – | – | – | 63 |
| Anwar Ibrahim (retired on 25 September 2007) | 150 | – | – | – | 150 |
| Lee G. Lam (resigned on 9 July 2007) | 81 | – | – | – | 81 |
| Victor Yang (resigned on 1 June 2007) | 50 | – | – | – | 50 |
| | 449 | – | – | – | 449 |
| Total | 1,124 | 1,079 | 3,060 | 60 | 5,323 |

There were no other emoluments payable to the independent non-executive directors during the year (period ended 31 December 2007: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (period ended 31 December 2007: Nil).

During the year, no emoluments have been paid to the directors as an inducement to join or upon joining the Group; or as compensation for loss of office (period ended 31 December 2007: Nil).

## 8. DIRECTORS' REMUNERATION *(Continued)*

The number of directors, whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|---|---|---|
| | **Year ended 31 December 2008** | Period from 1 April 2007 to 31 December 2007 |
| Nil to HK$1,000,000 | **8** | 11 |
| HK$1,000,001 to HK$2,000,000 | **2** | 2 |
| | **10** | 13 |

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (period ended 31 December 2007: five) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (period ended 31 December 2007: Nil) non-director, highest paid employees for the year are as follows:

| | **Year ended 31 December 2008 HK$'000** | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **1,104** | – |
| Pension scheme contributions | **24** | – |
| | **1,128** | – |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **Year ended 31 December 2008** | Period from 1 April 2007 to 31 December 2007 |
| Nil to HK$1,000,000 | **2** | – |

## 10. IMPAIRMENT LOSSES ON ASSETS HELD BY A SUBSIDIARY

| | Year ended 31 December 2008 HK$'000 | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|
| Impairment losses of: | | |
| Deposit and other receivables | – | 1,274 |
| Intangible assets | – | 8,987 |
| Furniture and fixtures | – | 1,196 |
| Charge for the year/period | – | 11,457 |

Subsequent to the Group's acquisition of Wuhan Pearl Oriental Logistics Limited ("Wuhan Pearl"), it is suspected that there might have been misappropriation of assets by a director of Wuhan Pearl, Ms. Yang Yu Qing ("Ms. Yang"), who was at the time a key management member of Wuhan Pearl. The directors of the Company have taken appropriate actions, to protect the Group's interests and recover the loss suffered by Wuhan Pearl from such misappropriation of assets. Moreover, certain key customers had terminated business relationship with Wuhan Pearl upon departure of Ms. Yang, resulting in the directors' decision to cease all businesses of Wuhan Pearl during the period ended 31 December 2007.

In light of the above, the directors of the Company considered that the assets attributable to the operations of Wuhan Pearl as disclosed above should be fully impaired at 31 December 2007.

## 11. TAX

No Hong Kong profits tax has been provided as the Company did not generate any assessable profits arising in Hong Kong during the year (period ended 31 December 2007: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | Year ended 31 December 2008 HK$'000 | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|
| Current tax: | | |
| Provision for PRC corporate income tax | 1 | 1,103 |
| Deferred tax: (note 29) | | |
| Over– accrual of deferred tax assets in prior years | 1,419 | – |
| Tax charge for the year/period | 1,420 | 1,103 |

## 11. TAX *(Continued)*

A reconciliation of the tax expense applicable to (loss)/profit before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

| | **Year ended 31 December 2008 HK$'000** | **%** | Period from 1 April 2007 to 31 December 2007 HK$'000 | % |
|---|---|---|---|---|
| (Loss)/profit before tax | **(39,845)** | | 34,228 | |
| Tax at tax rate prevailing at countries in which the Group operates | **(9,724)** | **(24.4)** | 5,134 | 14.9 |
| Tax effect of share of losses and profits of an associate | **3,917** | **10.0** | (9,282) | (27.0) |
| Income not taxable | **(8,348)** | **(20.9)** | (1,018) | (2.9) |
| Expenses not deductible for tax | **7,388** | **18.4** | 5,042 | 14.7 |
| Effect of different tax rates in subsidiaries | **–** | **–** | 1,227 | 3.6 |
| Tax benefits not yet recognised | **6,768** | **16.9** | – | – |
| Over-accrual for deferred tax assets in prior years | **1,419** | **3.6** | – | – |
| Tax charge at the Group's effective rate | **1,420** | **3.6** | 1,103 | 3.3 |

## 12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2008 includes a loss of HK$10,624,000 (period ended 31 December 2007: HK$9,753,000) which has been dealt with in the financial statements of the Company.

## 13. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the year/period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year/period.

No diluted loss per share for the year ended 31 December 2008 has been disclosed as no diluting events existed as at 31 December 2008.

A diluted earnings per share for the period from 1 April 2007 to 31 December 2007 has not been disclosed as the share options outstanding during the period from 1 April 2007 to 31 December 2007 had an anti-dilutive effect on the basic earning per share.

## 13. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

The calculations of basic (loss)/earnings per share are based on:

| | **Year ended 31 December 2008 HK$'000** | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|
| **Earnings** | | |
| (Loss)/profit for the year/period attributable to equity holders of the Company, used in the basic (loss)/profit per share calculation: | **(38,310)** | 38,422 |

| | **Number of shares (thousand)** | |
|---|---|---|
| | **Year ended 31 December 2008** | Period from 1 April 2007 to 31 December 2007 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year/period used in basic (loss)/profit per share calculation: | | |
| Issued ordinary shares at 1 January 2008/1 April 2007 | **383,059** | 381,641 |
| Effect of shares issued in April 2007 | **–** | 1,418 |
| Effect of shares issued in March 2008 | **64,123** | – |
| Weighted average number of ordinary shares | **447,182** | 383,059 |

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings HK$'000 | Freehold land HK$'000 | Leasehold improvements HK$'000 | Furniture fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **31 December 2008** | | | | | | |
| At 1 January 2008: | | | | | | |
| Cost or valuation | 85,121 | – | 1,471 | 27,227 | 1,449 | 115,268 |
| Accumulated depreciation | – | – | (944) | (13,698) | (470) | (15,112) |
| Net carrying amount | 85,121 | – | 527 | 13,529 | 979 | 100,156 |
| At 1 January 2008, net of accumulated depreciation | 85,121 | – | 527 | 13,529 | 979 | 100,156 |
| Additions | 1,148 | – | 132 | 1,529 | 890 | 3,699 |
| Acquisition through business combination | 27,312 | 4,117 | – | 32,924 | – | 64,353 |
| Disposals | – | – | (57) | (237) | (132) | (426) |
| Written off | – | – | – | (7,716) | – | (7,716) |
| Depreciation provided during the year | (2,609) | – | (199) | (2,442) | (414) | (5,664) |
| Exchange realignment | 7,368 | 438 | 22 | 3,059 | 42 | 10,929 |
| At 31 December 2008, net of accumulated depreciation and impairment | 118,340 | 4,555 | 425 | 40,646 | 1,365 | 165,331 |
| At 31 December 2008: | | | | | | |
| Cost or valuation | 120,937 | 4,555 | 1,270 | 54,486 | 2,121 | 183,369 |
| Accumulated depreciation and impairment | (2,597) | – | (845) | (13,840) | (756) | (18,038) |
| Net carrying amount | 118,340 | 4,555 | 425 | 40,646 | 1,365 | 165,331 |
| Analysis of cost or valuation: | | | | | | |
| At cost | 31,485 | 4,555 | 1,270 | 54,486 | 2,121 | 93,917 |
| At valuation | 89,452 | – | – | – | – | 89,452 |
| | 120,937 | 4,555 | 1,270 | 54,486 | 2,121 | 183,369 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Group

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Furniture fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| 31 December 2007 | | | | | |
| At 1 April 2007: | | | | | |
| Cost or valuation | 81,085 | 1,563 | 23,387 | 1,377 | 107,412 |
| Accumulated depreciation | – | (1,024) | (10,406) | (252) | (11,682) |
| Net carrying amount | 81,085 | 539 | 12,981 | 1,125 | 95,730 |
| At 1 April 2007, net of accumulated depreciation | 81,085 | 539 | 12,981 | 1,125 | 95,730 |
| Additions | – | 244 | 1,328 | – | 1,572 |
| Acquisition through business combination | – | – | 1,267 | – | 1,267 |
| Disposals | – | – | (35) | – | (35) |
| Written off during the period | – | (68) | – | – | (68) |
| Impairment | – | – | (1,196) | – | (1,196) |
| Depreciation provided during the period | (1,365) | (211) | (1,457) | (198) | (3,231) |
| Exchange realignment | 5,401 | 23 | 641 | 52 | 6,117 |
| At 31 December 2007, net of accumulated depreciation and impairment | 85,121 | 527 | 13,529 | 979 | 100,156 |
| At 31 December 2007: | | | | | |
| Cost or valuation | 85,121 | 1,471 | 27,227 | 1,449 | 115,268 |
| Accumulated depreciation and impairment | – | (944) | (13,698) | (470) | (15,112) |
| Net carrying amount | 85,121 | 527 | 13,529 | 979 | 100,156 |
| Analysis of cost or valuation: | | | | | |
| At cost | – | 1,471 | 27,227 | 1,449 | 30,147 |
| At valuation | 85,121 | – | – | – | 85,121 |
| | 85,121 | 1,471 | 27,227 | 1,449 | 115,268 |

Notes:

(a) The Group's buildings are located in the PRC and France under medium lease terms.

(b) The Group's buildings were revalued by an independent professional valuer, Mr. Philip C.Y. Tsang, at 31 December 2007 on the depreciated replacement cost approach basis. No revaluation gains or loss in respect of the buildings have been recognised during the period from 1 April 2007 to 31 December 2007 and a further assessment performed as of 31 December 2008 by the directors, the carrying amount of buildings as at 31 December 2008 did not differ materially from their fair value.

(c) The carrying amount of the Group's buildings would have been HK$92,030,000 (2007: HK$94,582,000) had they been stated at cost less accumulated depreciation.

(d) At 31 December 2008, certain of the Group's leasehold buildings situated in the PRC with an aggregate carrying value of HK$86,896,000 (2007:HK$85,121,000), which together with the prepaid land lease payments of HK$19,341,000 (2007: HK$18,855,000), were pledged to secure the bank loans granted to the Group (Note 27).

(e) The Group's freehold land is situate in France.

## 15. PREPAID LAND LEASE PAYMENTS

The Group's prepaid lease payments represented its interest in land use rights and their net carrying value is analysed as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Carrying amount at beginning of year/ period | **18,855** | 18,668 |
| Amortisation during the year/period | **(473)** | (395) |
| Exchange realignment | **959** | 582 |
| Carrying amount at 31 December | **19,341** | 18,855 |
| Current portion included in prepayments, deposits and other receivables (note 21) | **(473)** | (526) |
| Non-current portion | **18,868** | 18,329 |
| Analysed into: | | |
| Situated in the PRC under a medium term lease of 35 years | **19,341** | 18,855 |

At 31 December 2008, the Group's prepaid land lease payments in the PRC with an aggregate carrying value of HK$19,341,000 (2007: HK$18,855,000), were pledged to secure the bank loans granted to the Group (Note 27).

## 16. GOODWILL

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$"000 |
| Cost and carrying amount: | | |
| Arising from acquisition of a subsidiary (note 33(a)) | **16,921** | – |

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the processing and sales of recycling materials cash-generating unit, which is a reportable segment, for impairment testing.

The carrying amount of goodwill relevant to the processing and sales of recycling materials cash-generating unit is as follows:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Carrying amount of goodwill | **16,921** | 13,265* |

* Embedded in the interests in associate as at 31 December 2007 (Note 18(b))

## 16. GOODWILL *(Continued)*

The recoverable amount of the processing and sales of recycling materials cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 19% (2007: 20%) and cash flows beyond the five-year period are extrapolated using a growth rate which does not exceed the long term average growth rate of the processing and sales of recycling materials industry.

Key assumptions were used in the value in use calculation of the processing and sales of recycling materials cash-generating unit as at 31 December 2008. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

| | **2008** | 2007 |
|---|---|---|
| | **%** | % |
| Gross margin | **40** | 46 |
| Growth rate | **43** | 71 |
| Discount rate | **19** | 20 |

Management determined the budgeted gross-margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

## 17. INTERESTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **–** | – |
| Due from subsidiaries | **527,076** | 488,576 |
| | **527,076** | 488,576 |
| Due to subsidiaries | **(5,350)** | (5,207) |
| | **521,726** | 483,369 |

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## 17. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company are as follows:

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| PO (SZ) Logistics Limited | The British Virgin Islands (the "BVI") | US$1 | – | 100% | Provision of logistics services |
| Grand Huge International Limited | Hong Kong | HK$10,000 | – | 100% | Provision of corporate services |
| Guangzhou Pearl Oriental Logistics Limited# | The People's Republic of China (the "PRC") | RMB9,500,000 | – | 60% | Provision of logistics services |
| Inner Mongolia Pearl Oriental Logistics Co., Limited# | The PRC | RMB2,500,000 | – | 60% | Provision of logistics services |
| Jiangxi Pearl Oriental Logistics Limited# | The PRC | RMB500,000 | – | 60% | Provision of logistics services |
| Pearl Oriental Logistics (Shenzhen) Limited# | The PRC | US$400,000 | – | 100% | Provision of logistics services |
| Pearl Oriental Warehouse (Shenzhen) Limited# | The PRC | HK$35,000,000 | – | 100% | Provision of logistics services and property and investment holding |
| Pearl Oriental Services Limited | BVI | US$1 | 100% | – | Investment holding |
| Pearl Oriental Energy & Resources Limited | BVI | US$1 | 100% | – | Investment holding |
| Champion Merry Investment Limited | BVI | US$1 | – | 100% | Investment holding |
| Pearl Oriental Logistics Holdings Limited | BVI | US$1 | 100% | – | Investment holding |
| Good Value Holdings Limited | BVI | US$7 | – | 100% | Investment holding |

## 17. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Hong Kong Good Value Holdings Limited | Hong Kong | HK$200 | – | 100% | Inactive |
| PO (GZ) Logistics Limited | BVI | US$1 | – | 100% | Inactive |
| Southland Enterprises Limited | BVI | US$1 | – | 100% | Investment holding |
| Well Assessed Limited | Hong Kong | HK$2 | – | 100% | Inactive |
| Pearl Oriental International Assets Limited | Hong Kong | HK$1 | – | 100% | Provision of corporate services |
| Pearl Oriental Financial Services Limited | Hong Kong | HK$1 | – | 100% | Inactive |
| Grand Ascend Investments Limited | BVI | US$1 | – | 100% | Investment holding |
| Oriental Gold Mining Limited | Hong Kong | HK$1 | – | 100% | Inactive |
| Union Honour Investment Limited | Hong Kong | HK$2 | – | 100% | Inactive |
| Pearl Oriental Logistics Sino Limited | Hong Kong | HK$22,000,000 | – | 60% | Investment holding |
| Wuhan Pearl Oriental Logistics Limited# | The PRC | RMB4,007,157 | – | 60% | Provision of logistics services |
| Pearl Oriental Express Holdings Limited | Hong Kong | HK$10,000 | – | 60% | Investment holding |
| Allfair Limited | BVI | US$1 | – | 100% | Investment holding |
| Euro Resources China Limited | Hong Kong | HK$10,000 | – | 80% | Investment holding |
| Richcord Holdings Limited | Hong Kong | HK$1 | – | 80% | Investment holding |

## 17. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Star Merit Investments Limited | Hong Kong | HK$1 | – | 80% | Investment holding |
| Sun Ego Investments Limited | Hong Kong | HK$1 | – | 80% | Investment holding |
| Worldford Enterprises Limited | Hong Kong | HK$1 | – | 80% | Investment holding |
| Benford Holdings Limited | Hong Kong | HK$1 | – | 80% | Investment holding |
| Top Sonic Investments Limited | Hong Kong | HK$1 | – | 80% | Investment holding |
| Euro Resources Korea Limited | Hong Kong | HK$10,000 | – | 55% | Inactive |
| Sino-Euro Resources Marketing Limited | BVI | US$1 | – | 80% | Plastic recycling |
| Exploitation Ressources Internationales, S.A.# | France | EURO15,388 | – | 80% | Plastic recycling |

# Not audited by Cachet Certified Public Accountants Limited

## 18. INTERESTS IN ASSOCIATES

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Share of net assets | **365,012** | 391,334 |
| Goodwill arising from acquisition | **55,891** | 69,156 |
| | **420,903** | 460,490 |
| Due from associates | **5,593** | 9,930 |
| | **426,496** | 470,420 |

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

## 18. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the associates of the Company are as follows:

| Name | Place of incorporation/ registration and operations | Particular of issued shares held | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|
| China Coal Energy Holdings Limited ("China Coal") (Note (a)) | Hong Kong | HK$100,000,000 | 39.93% | Coal gasification and coal mining |
| Euro Resources China Limited (Note (b)) | Hong Kong | HK$10,000 | 80% (2007: 50%) | Processing and sales of recycling materials |

Notes:

(a) In October 2006, Champion Merry Investment Limited ("Champion"), a subsidiary of the Group) acquired from Zhang Jingyuen ("Mr. Zhang") (張景淵) a 40% equity interest in China Coal at a consideration of HK$357,720,000 of which HK$100,000,000 was settled by cash and the remaining balance was settled by the issue of a total of 75,800,000 new shares (the "Consideration Shares") of the Company at an issue price of HK$3.40 per share. Champion has subsequently reduced its equity interests in China Coal to 39.93%.

The net carrying value of Champion's interests in China Coal is as follows:

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Share of net assets of China Coal | **365,012** | 368,647 |
| Goodwill arising from acquisition of China Coal | **55,891** | 55,891 |
| | **420,903** | 424,538 |

The principal activity of China Coal is investment holding and the principal asset of China Coal is an 100% equity interest in Taiyuan Sanxing Coal Gasification (Group) Co., Limited (太原市三興煤炭氣化有限公司) ("Taiyuan Sanxing"). Taiyuan Sanxing was established in the PRC with limited liability and is principally engaged in the coal gasification and coal mining.

It came to the Group's attention on 12 November 2008 that Zhang Xinyu (張新玉) (brother of Mr. Zhang and the legal representative of Taiyuan Sanxing) obtained a judgment (the "Judgment") on 10 November 2008 from Taiyuan Intermediate People's Court (太原市中級人民法院) against Taiyuan Sanxing. China Coal has made an application for an appeal to the Judgment. As disclosed on the Company's announcement dated 28 November 2008, Zhang Xinyu, Zhang Jingyuen, Gao Shanhe, Zhang Zhenwu and Wang Jifeng (collectively, the "Defaulting Persons") have failed to perform their fiduciary duties as directors of China Coal and Taiyuan Sanxing (as the case may be) and committed wilful embezzling (侵佔) of assets of Taiyuan Sanxing. Therefore China Coal has sued the Defaulting Persons in the High Court of Hong Kong and in the PRC with view to prevent their further breaches and to claim for damages against their breaches.

## 18. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) *(Continued)*

China Coal has not been provided with the operating and financing information of Taiyuan Sanxing since 1 January 2008 and China Coal is unable to exercise its powers on the financial and operating matters of Taiyuan Sanxing. The loss of the operating and financing control over Taiyuan Sanxing has become apparent to China Coal's board of directors because the legal representative, directors and senior management of Taiyuan Sanxing were either appointed based on the recommendation of Mr. Zhang and/or ex-senior management of Taiyuan Sanxing prior to the Group's acquisition of the present equity interests in China Coal and therefore in Taiyuan Sanxing. Following all the shareholders of China Coal except Mr. Zhang have become aware of the loss of control over Taiyuan Sanxing, the board of directors of China Coal has passed certain key resolutions demanding structural reform to the board of directors of Taiyuan Sanxing. However, due to the above management structure unfavourable to the Group, those board resolutions of China Coal cannot be executed on or by Taiyuan Sanxing. As a result of the loss of control or significant influence over Taiyuan Sanxing, China Coal's equity interests in Taiyuan Sanxing were reclassified as an available for sales investment at its carrying value during the year.

The revenue, results, assets and liabilities of China Coal as at 31 December 2008 with comparative figures of 2007, as extracted from the unaudited financial statements of China Coal, were as follows:

| | **Year ended 31 December 2008 HK$'000** | Period from 1 April 2007 to 31 December 2007 HK$'000 |
|---|---|---|
| Revenue | **–** | 487,109 |
| (Loss)/profit for the year/period | **(9,101)** | 168,829 |

| | **31 December 2008 HK$'000** | 31 December 2007 HK$'000 |
|---|---|---|
| Available-for-sale investment | **944,312** | – |
| Other assets | **9** | 1,730,296 |
| Total assets | **944,321** | 1,730,296 |
| Total liabilities | **(31,907)** | (808,781) |
| Net assets | **912,414** | 921,515 |

As at 31 December 2008, China Coal's investment in Taiyuan Sanxing was stated at a carrying amount of approximately HK$944,312,000 less impairment, if any.

Pursuant to a conditional agreement dated 15 July 2006 between the Company and Mr. Zhang, Mr. Zhang has guaranteed to the Company that the audited net profit of China Coal determined in accordance with HKFRSs for the three financial years ending 31 December 2009 shall in aggregate be not less than HK$600,000,000. Should the aggregate audited net profit fall below HK$600,000,000, Mr. Zhang will pay the shortfall (the "Profit Guarantee") to the Company, on a dollar-to-dollar basis after the issuance of China Coal's audit reports for the three financial years ending 31 December 2009. Mr. Zhang had pledged all his equity interests in China Coal (the "Share Pledge") as collateral for his performance under the Profit Guarantee.

## 18. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) *(Continued)*

The directors of the Company have assessed the principal assets of China Coal and therefore Taiyuan Sanxing, and considered that no impairment is necessary to the carrying value of China Coal's available-for-sale investment in Taiyuan Sanxing as at 31 December 2008 and therefore the Group's investment in China Coal as at 31 December 2008.

The Group, through China Coal, has taken the necessary legal actions to protect China Coal's investment in Taiyuan Sanxing and based on a legal advice from his PRC lawyers, the directors of the Company are confident in obtaining a favourable judgment in the litigations.

(b) In November 2008, the Company has acquired a further 30 % equity interest in Euro Resources China Limited ("Euro Resource"). which became an 80%-owned subsidiary of the Company. Further details of which are set out in note 33 (a) to the financial statements.

## 19. INVENTORIES

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Raw materials | **9,083** | – |

## 20. TRADE RECEIVABLES

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Trade receivables | **13,130** | 16,355 |
| Less: Impairments | **(2,880)** | (1,042) |
| | **10,250** | 15,313 |

Included in the trade receivables were receivables in the amount of RMB372,214 (equivalents to HK$419,932) (2007: Nil) (note 27(d)) pledged to a banker of the Group as securities for the bank loan granted.

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally two month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

## 20. TRADE RECEIVABLES *(Continued)*

An aging analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Current or less than 3 months | **9,063** | 12,647 |
| More than 3 months pass due but less than 6 month | **194** | 2,427 |
| More than 6 months pass due but less than 12 months | **993** | 164 |
| Over 1 year | **–** | 75 |
| | **10,250** | 15,313 |

The movements in provision for impairment of trade receivables are as follows:

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| At the beginning of year/period | **1,042** | – |
| Impairment loss recognised | **1,838** | 1,042 |
| At the end of year/period | **2,880** | 1,042 |

At 31 December 2008, the Group's trade receivables of HK$1,838,000 (2007: HK$1,042,000) were individually determined to be impaired. The individually impaired receivables related to Wuhan Pearl's customers that management assessed that the recovery of the amounts are remote. The Group does not hold any collateral over these balances.

The aged analysis of the trade receivables that are not (or neither individually nor collectively) considered to be impaired is as follows:

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Neither past due nor impaired | **9,063** | 12,647 |
| 3 to 6 months past due | **194** | 2,427 |
| 6 to 12 months past due | **993** | 164 |
| Pass due over 1 year | **–** | 75 |
| | **10,250** | 15,313 |

## 20. TRADE RECEIVABLES *(Continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Company. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Company does not hold any collateral or other credit enhancements over these balances.

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Current portion of prepaid land lease payments (note 15) | **473** | 526 | **–** | – |
| Prepayments | **3,277** | 1,169 | **–** | – |
| Rental and other deposits paid (note (a)) | **4,519** | 4,472 | **–** | – |
| Other receivables | **2,926** | 1,576 | **80** | – |
| | **11,195** | 7,743 | **80** | – |

Note (a):

Include in the rental and other deposits is a deposit of RMB1,500,000 (equivalent to HK$1,692,000) (2007: Nil) paid in respect of a proposed acquisition undertaken by Euro Resources China Limited ("Euro Resources"), which was a 50%-owned associate of the Group until the Group obtained control by increasing its equity interests from 50% to 80% in November 2008 (Note 33). On 14 July 2007, Euro Resources, entered into a conditional sale and purchase agreement between an independent third party, Mr. He Zhaorong ("Mr. He"), in relation to of the acquisition of a 60% equity interest in Foshan Shunde Euro Resources Wanhai Manufacturing Limited ("Foshan") at a total consideration of RMB9,000,000 (equivalent to HK$$10,153,800).

On the same day, Euro Resources further entered into a supplemental agreement with Mr. He, pursuant to which, Euro Resources paid a deposit of RMB1,500,000 (equivalent to HK$1,692,000) to Mr. He in respect of the proposed acquisition. As at 31 December 2008, the Group had a capital commitment of RMB7,500,000 (equivalent to HK$8,461,000) (note 36) in respect of the outstanding purchase consideration.

Subsequent to the balance sheet date, on 25 March 2009, Euro Resources entered into a supplemental agreement with Mr. He, pursuant to which, the completion date has been extended to 31 March 2011.

## 22. AVAILABLE-FOR-SALE ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Equity securities, at fair value | **–** | – | **–** | – |

The above investment represents certain equity securities which were designated as available-for-sale financial assets on 1 January 2005. The securities have been fully impaired because China Technology Global Corporation was de-listed from the Over-The-Counter Bulletin Board of the United States of America in 2006.

## 23. DUE FROM/(TO) MINORITY SHAREHOLDERS OF SUBSIDIARIES

The total amount of due from/(to) minority shareholders of subsidiaries of HK$5,167,000 are unsecured, interest-free and have no fixed repayment terms and the remaining balance of HK$16,337,000 which was not repayable within the one year after the date of this report.

## 24. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **15,787** | 31,617 | **8,882** | 20,271 |

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$3,297,965 (2007: HK$6,500,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

At the balance sheet date, the bank deposit amounted to HK$1,112,605 (2007: Nil) was freezed.

## 25. TRADE PAYABLES

An aging analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:
Group

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Current – 3 months | **4,136** | 7,503 |
| 3 months – 6 months | **548** | 1,634 |
| 6 months – 12 months | **3,270** | 363 |
| Over 1 year | **813** | 300 |
| | **8,767** | 9,800 |

The trade payables are non-interest-bearing and are normally settled on 60 day terms.

## 26. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Other payables and accruals | **19,871** | 13,423 | **2,003** | 2,554 |
| Deposit received | **15** | 757 | **–** | – |
| | **19,886** | 14,180 | **2,003** | 2,554 |

## 27. INTEREST-BEARING BANK BORROWINGS, SECURED

| | Effective interest rate (%) | Maturity | Group **2008** **HK$'000** | Group 2007 HK$'000 |
|---|---|---|---|---|
| Bank loans – secured | Prime rate | 2014 | **60,370** | 64,416 |
| Bank overdrafts – secured | Prime rate | On demand | **10** | – |
| | | | **60,380** | 64,416 |
| Analysed into: | | | | |
| Bank loans repayable: | | | | |
| Within one year or on demand | | | **8,382** | 7,101 |
| In the second year | | | **8,922** | 7,707 |
| In the third to fifth years, inclusive | | | **31,099** | 27,301 |
| Beyond five years | | | **11,977** | 22,307 |
| Total | | | **60,380** | 64,416 |
| Current portion | | | **(8,382)** | (7,101) |
| Non-current portion | | | **51,998** | 57,315 |

The Company's banking facilities were secured by:

(a) a charge on the premises of the Group's leasehold building of HK$86,896,000 (2007:HK$85,121,000) (note 14), which together with the prepaid land lease payments of HK$19,341,000 (2007: HK$18,855,000) (note 15), which is situate in the PRC.

(b) corporate guarantees given by the Company and a subsidiary of the Company;

(c) the Group's banking facilities are subject to the fulfilment of covenants relating to certain capital requirements, as are commonly found in lending arrangements with financial institutions. If the Group breaches the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2008, none of the covenants relating to the drawn down facilities had been breached (2007: Nil).

(d) a charge on the trade receivables of Pearl Oriental Warehouse (Shenzhen) Limited, a wholly owned subsidiary of the Company, of approximately RMB372,214 (equivalent to HK$419,932) (note 20).

## 28. LOAN FROM IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

The Company entered into a loan facility agreement on 5 September 2006 with Orient Day Developments Limited ("Orient Day"), the immediate parent of the Company, in relation to the grant of a loan facility of not exceeding HK$70,000,000 by Orient Day to the Company. Orient Day is a company incorporated in the British Virgin Islands and is wholly-owned by Mr. Wong Kwan.

The total amount of HK$63,903,000 has been drawn down by the Company during the period ended 31 December 2007 and remained outstanding as at 31 December 2007. The loan was unsecured and repayable within one year after the drawdown. Apart from HK$21,430,000 which is interest-free, the remaining of HK$42,473,000 bore interest at the Hong Kong Prime Rate as quoted by The Hong Kong and Shanghai Banking Corporation ("HSBC") from time to time.

The Company further entered into another loan facility agreement on 5 September 2008 with Orient Day, in relation to the grant of a loan facility of not exceeding HK$25,000,000 by Orient Day to the Company. The amount of HK$21,430,000 was aggregated as part of the new loan of HK$25,000,000 with additional cash received by the Company of HK$3,570,000 during the year.

The total amount of HK$25,000,000 has been drawn down by the Company during the year and remained outstanding as at 31 December 2008. The loan is unsecured and is not repayable within one year from the date of this report. The loan of HK$25,000,000 bears interest at the Hong Kong Prime Rate as quoted by HSBC from time to time. Subsequent to the balance sheet date, on 4 March 2009, the Company entered into a conditional subscription agreement with Orient Day pursuant to which, the loan of HK$25,000,000 will be settled by part of the proceeds from the issue of certain convertible notes to Orient Day. Further details are set out in note 39(b) to the financial statements.

## 29. DEFERRED TAX ASSETS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At the beginning of year/period | **1,419** | 1,419 |
| Deferred tax charged to the income statement during the year/period (note 11) | **(1,419)** | – |
| Gross deferred tax assets at 31 December | **–** | 1,419 |

At 31 December 2008, the Group has unused tax losses of approximately HK$36,018,000 (2007: Nil) available for offset against future profits for a period of five years. During the year, no unrecognised tax losses have expired. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

At 31 December 2008, the Group did not have any significant deductible temporary differences (2007: Nil).

No provision for deferred taxation has been recognised in the financial statements of the Company as the amount involved is insignificant.

## 30. SHARE CAPITAL

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Authorised: | | |
| 200,000,000,000 ordinary shares of HK$0.10 each (2007: 600,000,000 shares of HK$0.50 each) | **20,000,000** | 300,000 |
| Issued and fully paid: | | |
| 464,737,960 ordinary shares of HK$0.10 each (2007: 387,281,960 shares of HK$0.50 each) | **46,474** | 193,641 |

A summary of the movements in the Company's authorised and issued share capital during the year is as follows:

| | **Authorized** | | | |
|---|---|---|---|---|
| | **Ordinary shares of HK$0.10 each** | | **Ordinary shares of HK$0.50 each** | |
| | **Number of shares** ('000) | HK$'000 | **Number of shares** ('000) | HK$'000 |
| At 1 April 2007 and 31 December 2007 | – | – | 600,000 | 300,000 |
| At 1 January 2008 | – | – | 600,000 | 300,000 |
| Increase of authorized share capital (note (ii)) | – | – | 5,400,000 | 2,700,000 |
| Capital restructuring | | | | |
| Capital reduction (note (iii)) | 6,000,000 | 600,000 | (6,000,000) | (3,000,000) |
| Increase of authorised share capital (note (iv)) | 194,000,000 | 19,400,000 | – | – |
| At 31 December 2008 | 200,000,000 | 20,000,000 | – | – |

| | **Issued and fully paid** | | | |
|---|---|---|---|---|
| | **Ordinary shares of HK$0.10 each** | | **Ordinary shares of HK$0.50 each** | |
| | **Number of shares** ('000) | HK$'000 | **Number of shares** ('000) | HK$'000 |
| At 1 April 2007 | – | – | 381,641 | 190,821 |
| Issue of new shares for acquisition of Pearl Oriental Sino (note (i)) | – | – | 5,640 | 2,820 |
| At 31 December 2007 | – | – | 387,281 | 193,641 |
| At 1 January 2008 | – | – | 387,281 | 193,641 |
| Issue of new shares (note (ii)) | – | – | 77,456 | 38,728 |
| Capital reduction (note (iii)) | 464,737 | 46,474 | (464,737) | (232,369) |
| At 31 December 2008 | 464,737 | 46,474 | – | – |

## 30. SHARE CAPITAL *(Continued)*

Notes:

i. On 4 April 2007, the Company acquired a 60% equity interest in Pearl Oriental Logistics Sino Limited ("Pearl Oriental Sino") by issuing a total of 5,640,000 new shares of the Company to Pearl Oriental Sino to satisfy the subscription monies for new shares issued by Pearl Oriental Sino to the Company.

ii. Pursuant to an ordinary resolution passed on 19 February 2008, the authorised share capital of the Company was increased from HK$300,000,000, divided into 600,000,000 shares of HK$0.50 each, to HK$3,000,000,000, divided into 6,000,000,000 shares of HK$0.50 each, by the creation of 5,400,000,000 additional shares of HK$0.50 each. Pursuant to a share subscription agreement dated 31 December 2007, the Company has allotted 77,456,000 new ordinary shares of HK$0.50 each to Orient Day Developments Limited at a price of HK$1.00 per share.

iii. Pursuant to a special resolution passed on 12 November 2008, the issued share capital of the Company be reduced by cancelling paid up capital to the extent of HK$0.40 on each of the shares in issue such that the nominal value of all the issued shares be reduced (the "Issued Capital Reduction") from HK$0.50 each to HK$0.10 each; and (b) the nominal value of all shares in the authorised share capital of the Company be reduced from HK$0.50 each to HK$0.10 each, resulting in the reduction of the authorised share capital from HK$3,000,000,000 to HK$600,000,000 divided into 6,000,000,000 shares of HK$0.10 each (the "Authorised Capital Reduction"). Upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the credit amount arising from the Issued Capital Reduction be applied to set off against the accumulated losses of the Company;

iv. Pursuant to an ordinary resolution passed on 12 November 2008, upon the Issued Capital Reduction and the Authorised Capital Reduction becoming effective, the authorised share capital of the Company be increased from HK$600,000,000, divided into 6,000,000,000 shares of HK$0.10 each, to HK$20,000,000,000, divided into 200,000,000,000 shares of HK$0.10 each, by the creation of 194,000,000,000 new shares of HK$0.10 each.

## 31. SHARE OPTION SCHEME

The Company has a share option scheme ("the Scheme") which was adopted on 21 June 2002 whereby, pursuant to a written resolution of the sole shareholder, was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 20 June 2012. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of any companies in the Group, to subscribe for shares in Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued share capital of the Company from time to time, without prior approval from shareholders of the Company. The number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company's issued share capital or with a value in excess of $5,000,000; otherwise it must be approved by the shareholders of the Company.

The options may be exercised at any time from 12 months from the date of acceptance of the offer to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company. The options vest from 12 months from the date of grant and are then exercisable within a period up to 20 June 2012. Each option gives the holder the right to subscribe for one ordinary share in the Company.

Pursuant to an ordinary resolution passed on 12 November 2008, all the outstanding share options which have been granted but not exercised at that date hereof, pursuant to a share option scheme adopted by shareholders of the Company on 21 July 2002, were cancelled.

## 31. SHARE OPTION SCHEME *(Continued)*

The number of share options outstanding during the year/period is as follows:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Weighted average exercise prices (per share) HK$** | **Number of options '000** | Weighted average exercise prices (per share) HK$ | Number of options '000 |
| At the beginning of the year/period | **3.394** | **12,927** | 3.381 | 20,187 |
| Lapsed during the year/period | **–** | **–** | 3.356 | (7,260) |
| Cancellation during the year | **3.394** | **(12,927)** | – | – |
| As at 31 December | **N/A** | **–** | 3.394 | 12,927 |

The exercise prices and exercise periods of the share options outstanding as at that balance sheet dates were as follows:

| | **Number of options** '000 | **Exercise price*** HK$ per share | **Exercise period** |
|---|---|---|---|
| As at 31 December 2008 | – | N/A | N/A |
| As at 31 December 2007 | 270 | 6.000 | 20 May 2004 to 21 June 2012 |
| | 407 | 3.100 | 18 August 2005 to 20 June 2012 |
| | 1,550 | 3.150 | 29 August 2006 to 20 June 2012 |
| | 9,700 | 3.375 | 13 June 2007 to 20 June 2012 |
| | 1,000 | 3.375 | 1 January 2008 to 20 June 2012 |
| | 12,927 | | |

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes Option Pricing Model (the "BS-Model"). The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the BS-Model.

## 32. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 21 of the financial statements.

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation in 1996.

The treasury shares reserve for the Company's own shares comprises the cost of the Company's shares held by the Group. During the period ended 31 December 2007, a total of 1,580,000 were disposed in the open market for an aggregate sales consideration of HK$3,208,000, which was credited to the treasury shares account in equity. At 31 December 2007 and 2008, 4,060,000 ordinary shares of the Company remained with Pearl Oriental Sino which was accounted for as a reduction in the Company's equity.

### (b) Company

| | Issued capital | Share premium | Contributed surplus | Share options reserve | Retained earnings/ (accumulated losses) | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK'000 | HK'000 |
| At 1 April 2007 | 190,821 | 334,666 | 45,348 | 21,513 | (164,202) | 428,146 |
| Issue of shares | 2,820 | 11,844 | – | – | – | 14,664 |
| Equity-settled share option expenses | – | – | – | 4,126 | – | 4,126 |
| Share option expired under share option scheme | – | – | – | (9,060) | 9,060 | – |
| Loss for the period | – | – | – | – | (9,753) | (9,753) |
| At 31 December 2007 | 193,641 | 346,510 | 45,348 | 16,579 | (164,895) | 437,183 |
| Issue of shares (note 30) | 38,728 | 38,728 | – | – | – | 77,456 |
| Share issue expenses | – | (330) | – | – | – | (330) |
| Capital reduction (note 30) | (185,895) | – | – | – | 185,895 | – |
| Cancellation of share option | – | – | – | (16,579) | 16,579 | – |
| Loss for the year | – | – | – | – | (10,624) | (10,624) |
| At 31 December 2008 | 46,474 | 384,908 | 45,348 | – | 26,955 | 503,685 |

## 32. RESERVES *(Continued)*

### (b) Company *(Continued)*

*Notes*

(i) Contributed surplus

The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition pursuant to the Group reorganisation in 1996. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of contributed surplus in certain circumstances.

Under the Companies Act 1981 Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

(ii) Share premium account

The share premium account is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

| | **Company** | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Share premium | **384,908** | 346,510 |
| Contributed surplus | **45,348** | 45,348 |
| Retained earnings/(losses) | **26,955** | (164,895) |
| | **457,211** | 226,963 |

## 33. BUSINESS COMBINATION

(a) Euro Resources China Limited ("Euro Resources") was owned as to 50% by the Group and was classified as an associate in the consolidated balance sheet as at 31 December 2007. At the time of acquiring the 50% equity interests in Euro Resources by the Group, the vendors (Mr. Laurent Kim, a former director and the founder of Euro Resources) and Mr. Ung Phong (collectively, the "Guarantors") have given a profit guarantee of Euro 4 million per year for years 2007 to 2009 (the "Profit Guarantee") to Grand Ascend Investments Limited ("Grand Ascend") , a wholly-owned subsidiary of the Company, in respect of Euro Resources' audited results for the three years ending 31 December 2009. Mr. Laurent Kim had pledged its 30% equity interests in Euro Resources in favour of Grand Ascent under a share charge (the "Share Charge") as collateral for the performance of the Guarantors under the Profit Guarantee.

As disclosed in the Company's circular dated 27 November 2008, the Guarantors had failed to honour and perform the Profit Guarantee due to their own personal reasons, and the Group had no other choice but to dispose of Mr. Laurent Kim's 30% equity interests in Euro Resources under the Share Charge by way of a private tender. Private invitations to offer had been sent to a number of potential investors in the environmental and related sectors by an independent sale agent of the private tender appointed by the Group including all the existing shareholders of Euro Resources. Legal advices have been obtained by the Company in respect of the enforceability of the Share Charge and of the results of the private tender.

## 33. BUSINESS COMBINATION *(Continued)*

(a) *(Continued)*

Allfair Limited ("Allfair"), a wholly-owned subsidiary of the Group, had submitted an offer of HK$9,800,000 to the sale agent of the private tender which was the only offer received by the sale agent. On 5 November 2008, Allfair entered into a sale and purchase agreement (the "Acquisition") with Grand Ascend to acquire the 30% equity interests in Euro Resources at a consideration of HK$9,800,000.

As disclosed in the Company's circular dated 27 November 2008, the Group has reserved the right to claim against the Guarantors to recover the balance of the shortfall in the Profit Guarantee, i.e. approximately Euro 5.5 million (equivalent to approximately HK$60,115,000) minus the sum of HK$9,800,000 recovered by the Group as a result of enforcing the Share Charge. The Group may consider taking legal proceedings against the Guarantors after seeking legal advice if it is in the best interests of the Group. The amount of HK$9,800,000 has been recognised as other income and gains (note 5).

Upon the completion of the Acquisition, Euro Resources became an 80% owned subsidiary of the Company. The fair values of the identifiable assets and liabilities of Euro Resources as at the completion date of Acquisition and the corresponding carrying amounts immediately before the completion date of the Acquisition are as follows:

| | **Fair value recognised on acquisition** HK$'000 | **Previous carrying amount** HK$'000 |
|---|---|---|
| Property, plant and equipment (Note 14) | 64,353 | 64,353 |
| Cash and bank balances | 2,029 | 2,029 |
| Inventories | 7,202 | 7,202 |
| Trade receivables | 1,887 | 1,887 |
| Prepayments and other receivables | 4,253 | 4,253 |
| Trade payables | (9,362) | (9,362) |
| Other payables and accruals | (30,669) | (30,669) |
| Due to minority shareholders | (17,507) | (17,507) |
| Tax payable | (1,707) | (1,707) |
| | 20,479 | 20,479 |
| Portion attributable to the 30% equity interests in Euro Resources acquired | 6,144 | |
| Goodwill on acquisition of 30% equity interests | 3,656 | |
| Satisfied as: | | |
| Other income – shortfall in profit of Euro Resources guaranteed by an ex-joint venture partner (Note 5) | 9,800 | |

The net inflow of cash and cash equivalents in respect of the Acquisition represents the cash and bank balances of Euro Resources of approximately HK$2,029,000 acquired.

## 33. BUSINESS COMBINATION *(Continued)*

(a) *(Continued)*

The goodwill in association with the piece-meal acquisition of the 80% equity interests in Euro Resources is as follows:

| | HK$'000 |
|---|---|
| Goodwill recognised in the previous period, included in the interests in associates (Note 18) | 13,265 |
| Goodwill on acquisition of 30% equity interests | 3,656 |
| Total goodwill arising from acquisition of a subsidiary (Note 16) | 16,921 |

Since the acquisition of the additional 30% equity interests by the Group, Euro Resources had not contributed to the Group's revenue and contributed a loss of HK$965,000 to the consolidated loss for the year ended 31 December 2008.

(b) On 4 April 2007, the Group acquired (the "POS Acquisition") an effective 60% equity interest of Pearl Oriental Sino, which business was carried out through its wholly-owned subsidiary, Wuhan Pearl Oriental Logistics Limited ("Wuhan Pearl"), by the issue of the Company's 5,640,000 new shares at HK$2.60 each, totalling HK$14,664,000, to Pearl Oriental Sino as consideration for new shares issued to the Company. Pearl Oriental Sino was owned as to 100% and 40% by an independent third party, Ms. Yang Yu Qing, prior and subsequent to the POS Acquisition respectively. The new Company shares issued are accounted for as treasury shares and as a reduction in the Company's capital (Note 30(i)).

The fair values of the identifiable assets and liabilities of Pearl Oriental Sino as at the completion date of POS Acquisition and the corresponding carrying amounts immediately before the completion date of the POS Acquisition are as follows:

| | **Fair value recognised on acquisition** HK$'000 | **Previous carrying amount** HK$'000 |
|---|---|---|
| Treasury shares in the Company (Note 30(a)) | 14,664 | 14,664 |
| Intangible assets | 8,987 | – |
| Property, plant and equipment | 1,267 | 1,166 |
| Cash and cash equivalents | 214 | 214 |
| Other net liabilities | (692) | (692) |
| | 24,440 | 15,352 |
| Portion attributable to the 60% equity interests in Pearl Oriental Sino acquired | 14,664 | |
| Satisfied as: | | |
| Treasury shares | 14,664 | |

The net inflow of cash and cash equivalents in respect of the Acquisition represents the cash and bank balances of Pearl Oriental Sino of approximately HK$214,000 acquired for the period ended 31 December 2007.

## 34. CONTINGENT LIABILITIES

At the balance sheet date, the Company's contingent liabilities not provided for in the financial statements were as follows:

| | Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Guarantees given to banks in connection with facilities granted to a subsidiary | **60,370** | 64,416 |

As at 31 December 2008, the banking facilities granted to the a subsidiary subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$60,369,827 (2007: HK$64,416,000). No financial liabilities were recorded for the above guarantees given to banks as, in the opinion of the directors, the fair values of the financial guarantee contracts were not material as at 31 December 2007 and 2008.

The Group did not have any significant contingent liabilities as at 31 December 2008 (2007: Nil).

## 35. OPERATING LEASE ARRANGEMENTS

### As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of one to four years.

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Within one year | **7,612** | 4,312 |
| In the second to fifth year, inclusive | **733** | 6,256 |
| After five years | **–** | 5,037 |
| | **8,345** | 15,605 |

The Company did not have any significant operating lease arrangements as at 31 December 2008 (2007: Nil).

## 36. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the balance sheet date:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Authroised, but not contracted for: | | |
| Proposed acquisition of a subsidiary (Note 21) | **8,461** | 8,052 |

The Company did not have any significant commitments as at 31 December 2008 (2007: Nil).

## 37. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with the related party during the year:

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| **Immediate and ultimate controlling party:** | | |
| Orient Day Developments Limited: | | |
| Administrative fees paid | **250** | 640 |
| Loan interest paid | **882** | 868 |

The related party transactions were conducted on terms negotiated between the Company and the related company.

## 38. LITIGATIONS

Apart from the litigation detailed in note 18(a) to the financial statements, the Group had the following significant outstanding litigations at the balance sheet date:

(a) The Group had three pending litigation claims the ex-directors of a disposed subsidiary, Dransfield Holdings Limited ("DHL"), who claim against the Group for a total sum of not less than HK$11.4 million. As disclosed in the Company's announcement dated 23 August 2005, the Company's interest in DHL was disposed of on 23 July 2005. It was alleged in these claims that by disposing of all its shares in DHL, the Company was evading liabilities and denying these claimants' benefits of the debts owned by DHL. Trial of one of these claims has been held in January 2009. The Company's legal advisers were of the opinion that the claims of the three plaintiffs in this case may not stand and accordingly, no liabilities have been provided by the Group as at the balance sheet date.

(b) It is a term and condition in the subscription agreements entered into by, inter alios, the Company and DiChain Holdings Limited ("DiChain Holdings"), being a former majority shareholder of the Company, on 22 February 2006 and an obligation (the "Obligation") for DiChain Holdings to pledge one billion shares (or 20,000,000 consolidated shares of HK$0.50 each) upon completion of the Subscription Agreements, as collateral to compensate the Company of any economic loss (if any) arising from any breach of warranties (if any) provided by DiChain Holdings under the Subscription Agreements. As DiChain Holdings has not yet performed the Obligations under the Subscription Agreements, the Company issued a writ of summons against DiChain Holdings on 31 October 2006, inter alia, in respect of the breach of warranties given by DiChain Holdings under the Subscription Agreements. The Company obtained a summary judgment against DiChain Holdings on 13 December 2007 in respect of its nonperformance of obligations and breach of warranties under the Subscription Agreements. On 7 January 2008, China Minsheng Banking Corporation Limited (Shenzhen Branch) ("Minsheng Bank") applied to the court to join as the intervener of this case and has applied to the court for appeal, and Minsheng Bank obtained an order on 15 April 2008 that the appeal against the summary judgment entered by the Company on 13 December 2007 be allowed. The Company has obtained legal advice to further appeal after reviewing the judgment from the court and may consider to petition to the court for a winding order of DiChain Holdings in order to protect the interests of the Company.

(c) As announced by the Company on 12 August 2008, on 7 August 2008, Zhang Jingyuan (formerly know as Zhang Genyu ("Zhang")) issued and served a writ ("the Writ") in the High Court of Hong Kong against, inter alios, the Company, Champion Merry Investment Limited ("Champion"), a subsidiary of the Company and Mr. Wong Kwan, Chairman, Chief executive, executive director and also a majority beneficial shareholder of the Company, in which Zhang claimed, inter alias, against the Company and Champion for damages for alleged breaches of a Joint Venture Agreement dated 15 July 2006 (the "Joint Venture Agreement"), and Zhang also applied for an order that the joint venture agreement and the deed of charge dated 25 October 2006 in favour of the Company in respect of all of Zhang's shares in China Coal Energy Holdings Limited ("China Coal") be rescinded. After considering opinion from the Company's legal advisors, the Company is of the view that all the claims in the Writ are of no substance and groundless, and the Board will strongly defend and has confidence to defeat such claims and the Company has issued counterclaim against Zhang, including without limitation, the dividend from China Coal of HK$80,000,000, damages for breaches of the Joint Venture Agreement and other relief.

## 39. POST BALANCE SHEET EVENTS

(a) On 22 January 2009, the Group and Sunny Villa Investments Limited entered into a sale and purchase agreement to dispose of 60% equity in Pearl Oriental Express Holdings Limited ("POEHL"), which wholly owned Guangzhou Pearl Oriental Logistics Limited, at a consideration of HK$3,000,000 in cash and a 2-year convertible bond issued by POEHL to the Group in the principal of HK$9,000,000 which convertible into 20% of the share capital of POEHL on a fully diluted basis from time to time. The disposal of POEHL has been completed in February 2009.

(b) Apart from the subsequent events detailed in Note 21(a) to the financial statements, subsequent to the balance sheet date, on 4 March 2009, Orient Day Developments Limited ("Orient Day"), the immediate parent and ultimate controlling party, and the Company entered into an agreement (the "Subscription Agreement") in relation to the proposed issue of convertible notes (the "Convertible Notes") by the Company to Orient Day. The Convertible Notes consist of two tranches and the total principal amount is up to HK$45,000,000. The Convertible Notes are convertible into new shares of the Company at an exercise price of HK$0.30 per share, resulting in the issue of an aggregate of up to 150,000,000 new shares (the "Conversion Shares"). Pursuant to the terms of the agreement, the completion of the proposed issue is conditional ("Conditions") upon the followings:

(i) the Listing Committee of the Stock Exchange having granted approval for the listing of and permission to deal in the Conversion Shares; and

(ii) the passing by the independent shareholders in the special general meeting of a resolution to approve the issue of the Convertible Notes and the Conversion Shares hereunder in accordance with the Listing Rules.

If any of the above Conditions have not been fulfilled by 30 June 2009 (or such later date as the Company and Orient Day may agree), the Subscription Agreement will lapse.

The Convertible Notes shall be issued as follows:

(i) Subject to the fulfillment of the Conditions, Orient Day shall subscribe for, and the Company shall issue, the convertible note due after 2 years from the date of issue with an aggregate principal amount of HK$30,000,000 (the "First Tranche Note"); and

(ii) Subject to fulfillment of the Conditions and if Orient Day elects to subscribe for, the Company may at its sole discretion give a written notice to Orient Day on or before 31 December 2009 to invite for the subscription for the Second Tranche Note of a further principal sum of HK$15,000,000 which shall have the same rights and interests and be subject to the Conditions as the First Tranche Note.

The proceeds from the issue of the First Tranche Note will be used partially for the settlement of the loan from Orient Day of HK$25 million (Note 28).

The proposed issue of the Convertible Notes and the Conversion Shares, with details set out in the Company's circular dated 26 March 2009, was approved by the independent shareholders in the special general meeting held on 16 April 2009.

## 40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### Major non-cash transactions

During the year, the Company allotted a total of 77,456,000 ordinary shares of HK$0.50 each to Orient Day, the immediate and ultimate controlling party, at a price of HK$1.00 each of which the proceeds has settled partially against loan of HK$42,473,000 from Orient Day at the time (Note 28) and the balance in as additional working capital of the Group.

## 40. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### Major non-cash transactions *(Continued)*

| | HK$'000 |
|---|---|
| Proceeds from issue of shares | 77,456 |
| Less: Share issue expenses | (330) |
| | 77,126 |
| Partially settled against loan from Orient Day | (42,473) |
| Net cash inflow arising from issue of shares | 34,653 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

**31 December 2008**

**Financial assets**

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | | | | | |
| | – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Held-to-maturity investments HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Interest in associates | – | – | – | 420,903 | – | 420,903 |
| Trade receivables | – | – | – | 10,250 | – | 10,250 |
| Financial assets included in prepayments, deposits and other receivables | – | – | – | 11,195 | – | 11,195 |
| Due from associates | – | – | – | 5,593 | – | 5,593 |
| Cash and cash equivalents | – | – | – | 15,787 | – | 15,787 |
| | – | – | – | 463,728 | – | 463,728 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss | | | |
|---|---|---|---|---|
| | – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
| Trade payables | – | – | 8,767 | 8,767 |
| Financial liabilities included in other payables and accruals | – | – | 19,886 | 19,886 |
| Loan from an immediate parent and ultimate controlling party | – | – | 25,000 | 25,000 |
| Due to minority shareholders of subsidiaries | – | – | 21,504 | 21,504 |
| Interest-bearing bank borrowings, secured | – | – | 60,380 | 60,380 |
| | – | – | 135,537 | 135,537 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

**31 December 2007**

Financial assets

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | | | | | |
| | – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Held-to-maturity investments HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Interest in associates | – | – | – | 460,490 | – | 460,490 |
| Trade receivables | – | – | – | 15,313 | – | 15,313 |
| Financial assets included in prepayments, deposits and other receivables | – | – | – | 7,743 | – | 7,743 |
| Due from minority shareholders of subsidiaries | – | – | – | 11 | – | 11 |
| Due from associates | – | – | – | 9,930 | – | 9,930 |
| Cash and cash equivalents | – | – | – | 31,617 | – | 31,617 |
| | – | – | – | 525,104 | – | 525,104 |

Financial liabilities

| | Financial liabilities at fair value through profit or loss | | | |
|---|---|---|---|---|
| | – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
| Trade payables | – | – | 9,800 | 9,800 |
| Financial liabilities included in other payables and accruals | – | – | 14,180 | 14,180 |
| Loan from an immediate parent and ultimate controlling party | – | – | 63,903 | 63,903 |
| Interest-bearing bank borrowings, secured | – | – | 64,416 | 64,416 |
| | – | – | 152,299 | 152,299 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

**31 December 2008**

**Financial assets**

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | | | | | |
| | – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Held-to-maturity investments HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Cash and cash equivalents | – | – | – | 8,882 | – | 8,882 |
| Financial assets included in prepayments, deposits and other receivables | – | – | – | 80 | – | 80 |
| Due from subsidiaries | – | – | – | 527,076 | – | 527,076 |
| | – | – | – | 536,038 | – | 536,038 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss | | | |
|---|---|---|---|---|
| | – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Financial liabilities at amortised cost HK$'000 | Total HK$'000 |
| Financial liabilities included in other payables and accruals | – | – | 2,003 | 2,003 |
| Loan from an immediate parent and ultimate controlling party | – | – | 25,000 | 25,000 |
| Due to subsidiaries | – | – | 5,350 | 5,350 |
| | – | – | 32,353 | 32,353 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

**31 December 2007**

Financial assets

| | Company | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss | | | | | |
| | – designated as such upon initial recognition HK$'000 | – held for trading HK$'000 | Held-to-maturity investments HK$'000 | Loans and receivables HK$'000 | Available-for-sale financial assets HK$'000 | Total HK$'000 |
| Cash and cash equivalents | – | – | – | 20,271 | – | 20,271 |
| Due from subsidiaries | – | – | – | 488,576 | – | 488,576 |
| | – | – | – | 508,847 | – | 508,847 |

Financial liabilities

| | Financial liabilities at fair value through profit or loss | | | |
|---|---|---|---|---|
| | – designated as such upon initial recognition HK$ | – held for trading HK$ | Financial liabilities at amortised cost HK$ | Total HK$ |
| Financial liabilities included in other payables and accruals | – | – | 2,554 | 2,554 |
| Loan from an immediate parent and ultimate controlling party | – | – | 63,903 | 63,903 |
| Due to subsidiaries | – | – | 5,207 | 5,207 |
| | – | – | 71,664 | 71,664 |

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, secured and other payables and accruals, loan from immediate parent and utilmate controlling party and due to minority shareholders of the subsidiaries. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing bank borrowings, secured, loan from immediate parent and utlimiate controlling party with a floating interest rate.

The following the table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's (loss)/profit before tax

| | Increase/ (decrease) in basis points HK$'000 | Increase/ (decrease) in profit before tax HK$'000 | Increase/ (decrease) in in equity HK$'000 |
|---|---|---|---|
| **31 December 2008** | | | |
| Hong Kong dollars | 1% | (854) | (854) |
| | (1%) | 854 | 854 |
| **31 December 2007** | | | |
| Hong Kong dollars | 1% | (1,069) | (1,069) |
| | (1%) | 1,069 | 1,069 |

### Foreign currency risk

The Group has minimal transactional currency exposures as the sales and purchases of the Group were mainly transacted in Chinese Renminbi ("RMB"), Euro ("Euro") and Hong Kong dollars ("HKD"). Over 90% (2007: 90%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, while almost 90% of costs are denominated in the units' functional currency.

The exchange rate of RMB and EURO were comparatively volatile.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rate of RMB and EURO exchange rate, with all other variable held constant, of the Group's (loss)/profit before tax.

| | Increase/ (decrease) in exchange rate % | Increase/ (decrease) in profit before tax HK$'000 | Increase/ (decrease) in equity HK$'000 |
|---|---|---|---|
| **31 December 2008** | | | |
| If HKD weakens against RMB | 5% | (2,593) | (2,593) |
| If HKD strengthens against RMB | 5% | 2,593 | 2,593 |
| If HKD weakens against EURO | 5% | (221) | (221) |
| If HKD strengthens against EURO | 5% | 221 | 221 |
| **31 December 2007** | | | |
| If HKD weakens against RMB | 5% | (2,121) | (2,121) |
| If HKD strengthens against RMB | 5% | 2,121 | 2,121 |

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Foreign Currency risk *(Continued)*

At 31 December 2007 and 2008, the Group had not hedged any foreign currency sales to reduce such foreign currency risk.

In the opinion of the directors, they will monitoring this risk, if the exchange rate of these foreign currencies have continuous fluctuation, they will consider to use forward currency contracts to reduce these risks.

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In additional, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the management.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, equity investments at fair value through profit or loss, amounts due from associates and jointly-controlled entities, other receivable and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, and other interest-bearing loans. The directors of the Company are currently exploring various options for providing additional equity funding to the Group. Provided that such additional equity funding can be secured, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. A shareholder and director of the Group has indicated his willingness to continue financing the operations of the Group and the Company and has agreed not to demand repayment of the amounts due to him of his controlled entity until the Group and the Company is in a position to do so.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

**Group**

**31 December 2008**

| | On demand HK$'000 | Less than 3 months HK$'000 | Held to 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Trade payables | – | 4,136 | 3,818 | 813 | – | 8,767 |
| Other payables and accruals | 19,886 | – | – | – | – | 19,886 |
| Interest-bearing bank borrowings, secured | 10 | 1,343 | 7,029 | 51,998 | – | 60,380 |
| Due to immediate parent and ultimate controlling party | – | – | – | 25,000 | – | 25,000 |
| Due to minority shareholders of subsidiaries | 5,167 | – | – | 16,337 | – | 21,504 |
| | 25,063 | 5,479 | 10,847 | 94,148 | – | 135,537 |

**31 December 2007**

| | On demand HK$'000 | Less than 3 months HK$'000 | Held to 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Trade payables | – | 7,503 | 1,997 | 300 | – | 9,800 |
| Other payables and accruals | 14,180 | – | – | – | – | 14,180 |
| Interest-bearing bank borrowings, secured | – | 1,775 | 5,326 | 35,008 | 22,307 | 64,416 |
| Due to immediate parent and ultimate controlling party | 63,903 | – | – | – | – | 63,903 |
| | 78,083 | 9,278 | 7,323 | 35,308 | 22,307 | 152,299 |

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

The maturity profile of the Company's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

**Company**

**31 December 2008**

| | On demand HK$'000 | Less than 3 months HK$'000 | Held to 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Other payables and accruals | **2,003** | **–** | **–** | **–** | **–** | **2,003** |
| Due to subsidiaries | **5,350** | **–** | **–** | **–** | **–** | **5,350** |
| Due to immediate parent and ultimate controlling party | **–** | **–** | **–** | **25,000** | **–** | **25,000** |
| | **7,353** | **–** | **–** | **25,000** | **–** | **32,353** |

**31 December 2007**

| | On demand HK$'000 | Less than 3 months HK$'000 | Held to 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Other payables and accruals | 2,554 | – | – | – | – | 2,554 |
| Due to subsidiaries | 5,207 | – | – | – | – | 5,207 |
| Due to immediate parent and ultimate controlling party | 63,903 | – | – | – | – | 63,903 |
| | 71,664 | – | – | – | – | 71,664 |

### Equity price risk

Equity price is the risk that the fair value of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. As at the balance sheet date, the Group has no significant equity price risk.

### Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year/period ended 31 December 2008 and 2007.

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes trade payables, other payable and accruals, a loan from the immediate and ultimate controlling party, and amounts due to minority shareholders of subsidiaries and interest-bearing bank borrowings, secured, less cash and cash equivalents. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the balance sheet dates were as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Trade payables | **8,767** | 9,800 |
| Other payables and accruals | **19,886** | 14,180 |
| Loan from an immediate parent and ultimate controlling party | **25,000** | 63,903 |
| Interests-bearing bank borrowings, secured | **60,380** | 64,416 |
| Due to minority shareholders of subsidiaries | **21,504** | – |
| Less: Cash and cash equivalents | **(15,787)** | (31,617) |
| Net debt | **119,750** | 120,682 |
| Equity attributable to equity holders | **521,943** | 476,245 |
| Total capital | **521,943** | 476,245 |
| Capital and net debt | **641,693** | 596,927 |
| Gearing ratio | **19%** | 20% |

## 43. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2009.

# Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years/period, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

| | **Year ended 31 December 2008 HK$'000** | Period from 1 April 2007 to 31 December 2007 HK$'000 | Year ended 31 March 2007 HK$'000 | Year ended 31 March 2006 HK$'000 | Year ended 31 March 2005 HK$'000 |
|---|---|---|---|---|---|
| **RESULTS** | | | | | |
| **CONTINUING OPERATIONS** | | | | | |
| REVENUE | **78,783** | 55,620 | 65,344 | 75,157 | 34,145 |
| Cost of services provided | **(51,095)** | (40,272) | (51,061) | (54,207) | (21,695) |
| Gross profit | **27,688** | 15,348 | 14,283 | 20,950 | 12,450 |
| Other income and gains | **12,493** | 7,361 | 4,218 | 20,609 | 7,144 |
| Selling and distribution costs | **(17,609)** | (7,175) | (4,912) | (4,732) | (2,723) |
| Administrative expenses | **(43,171)** | (34,939) | (39,539) | (107,202) | (32,211) |
| Equity-settled share-based payments expenses | **–** | (4,126) | (20,297) | – | – |
| Finance costs | **(6,494)** | (4,125) | (6,868) | (6,155) | (5,486) |
| Share of profits and losses of associates | **(12,752)** | 61,884 | (1,201) | – | 1,826 |
| PROFIT/(LOSS) BEFORE TAX | **(39,845)** | 34,228 | (54,316) | (76,530) | (19,000) |
| Tax | **(1,420)** | (1,103) | (1,168) | (1,039) | (435) |
| PROFIT/(LOSS) FOR THE YEAR/PERIOD FROM CONTINUING OPERATIONS | **(41,265)** | 33,125 | (55,484) | (77,569) | (19,435) |
| **DISCONTINUED OPERATION** | | | | | |
| Loss for the year from discontinued operation | **–** | – | – | – | (156) |
| PROFIT/(LOSS) FOR THE YEAR/PERIOD | **(41,265)** | 33,125 | (55,484) | (77,569) | (19,591) |
| Attributable to: | | | | | |
| Equity holders of the Company | **(38,310)** | 38,422 | (53,278) | (78,276) | (19,574) |
| Minority interests | **(2,955)** | (5,297) | (2,206) | 707 | (17) |
| | **(41,265)** | 33,125 | (55,484) | (77,569) | (19,591) |
| **ASSETS, LIABILITIES AND MINORITY INTERESTS** | | | | | |
| TOTAL ASSETS | **673,931** | 645,008 | 547,256 | 156,787 | 243,009 |
| TOTAL LIABILITIES | **(151,988)** | (168,763) | (119,514) | (103,080) | (117,823) |
| MINORITY INTERESTS | **(8,647)** | (6,297) | (1,818) | (4,024) | (3,317) |
| | **513,296** | 469,948 | 425,924 | 49,683 | 121,869 |