ANNUAL REPORT 2009

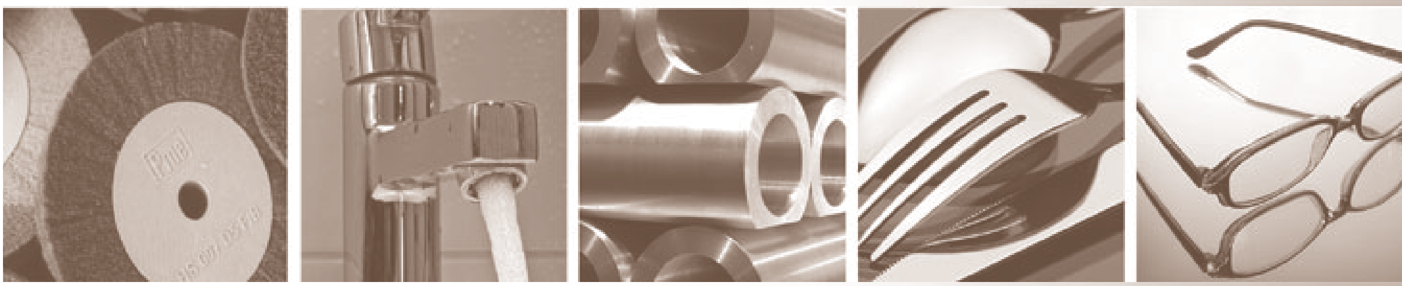
PME GROUP LIMITED

必美宜集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 00379

Contents



Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Li Chak Hung

AUTHORISED REPRESENTATIVES

Mr. Cheng Kwok Woo
Mr. Cheng Kwong Cheong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDITOR

SHINEWING (HK) CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
PO Box 484
HSBC House
68 West Bay Road
Grand Cayman KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

379

WEBSITE

http://www.pme8.com

Chairman's Statement

I hereby present to our shareholders the 2009 annual report.

RESULTS FOR THE YEAR

For the year 2009, the Group recorded turnover of approximately HK$319.6 million and net profit attributable to shareholders amounted to approximately HK$158.4 million. The Directors do not recommend payment of final dividend for the year ended 31 December 2009.

REVIEW OF THE YEAR

The Group's turnover for the year ended 31 December 2009 moderately increased by 7.2% to HK$319.6 million as compared with last year. The increase in turnover was mainly attributed from the proceeds from held for trading investments, amounting to HK$142.9 million.

Profit for the year ended 31 December 2009 attributable to the shareholders of the Company was approximately HK$158.4 million (2008: Loss HK$268.4 million). The Group recorded a profit for the year ended 31 December 2009 as compared to a loss for the year ended 31 December 2008 mainly due to decrease in impairment losses recognised in respect of available-for-sale investments and goodwill on acquisition of subsidiaries and associate.

Segmental loss of the polishing materials and equipments division increased from approximately HK$28.8 million in 2008 to HK$43.0 million in 2009, which was mainly due to the loss on revaluation of buildings amounting to approximately HK$20.1 million for the year ended 31 December 2009. The gross profit margin of polishing materials and equipments division had been improved from 5.2% in 2008 to 8.1% in 2009.

Since the recovery of financial market during 2009, the investment division recorded a segmental profit of approximately HK$240.5 million, as compared with the segmental loss of approximately HK$236.2 million in 2008, which was mainly caused by the decrease in fair value of held for trading investments amounting to approximately HK$15.8 million and the impairment loss on available-for-sale investments amounting to approximately HK$199.5 million in 2008. In addition, the Group recorded gain on disposal of its interests in associates amounting to approximately HK$97.5 million in 2009.

OUTLOOK

2010 is expected to be both a crucial, yet complicated year in terms of economic development in Hong Kong and the PRC as they continue to counteract the global financial crisis while maintaining a stable and comparatively fast economic growth as well as accelerating transformation in growth patterns. The Group will continue to explore and develop profitable businesses while enforcing cost-saving measures, especially with respect to the manufacturing and trading of products in order to enhance its profit ratio.

The acquisition of 49% equity interest in Giant Billion Limited ("Giant Billion") was completed in February 2010. In view of the fact that the PRC has one of the largest television viewing markets in the world and that cable networks provide an important means of television transmission in the PRC, the Group intends to develop the business in the media and advertising sector in the PRC. The Directors consider that the investment in Giant Billion will provide a good opportunity for the Company to participate in the media industry in the PRC and bring reasonable return to the Group. The respective digital sports television channel is ready for public broadcast.

Chairman's Statement

The competition in the polishing materials market in both Hong Kong and Mainland China has remained keen. In order to better control the manufacturing costs, the Group is planning to dispose of its manufacturing facilities and outsource its manufacturing process. More details will be provided in the "Management Discussion and Analysis" section.

As the recovery of the global economy remains uncertain and as there remains potential pitfalls in the external environment, the Directors will continue to adopt prudent investment policies, but believe that attractive investment opportunities are still available as companies and businesses may well be undervalued in a volatile financial market.

In January 2010, the Company announced a potential strategic cooperation regarding the restructuring and development of natural resources business in the PRC as part of the Company's ongoing efforts to consider further diversification of its business portfolio and risk management. The Directors have been actively seeking different business opportunities to diversify its businesses and will grasp every investment and business opportunities as they arise to enhance value for its shareholders.

APPRECIATION

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

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

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

Cheng Kwok Woo
Chairman

Hong Kong, 28 April 2010

Management Discussion and Analysis

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group's turnover for the year ended 31 December 2009 moderately increased by 7.2% to HK$319.6 million as compared with last year. The increase in turnover was mainly attributed from the proceeds from held for trading investments during the year. During the year 2009, segmental revenue of polishing materials and equipments and investment divisions decreased by 16.3% and 99.2% respectively as compared with last year.

Profit for the year ended 31 December 2009 attributable to the shareholders of the Company was approximately HK$158.4 million (2008: Loss HK$268.4 million). The Group recorded a profit for the year ended 31 December 2009 as compared to a loss for the year ended 31 December 2008 mainly due to decrease in impairment losses recognised in respect of available-for-sale investments and goodwill on acquisition of subsidiaries and associate.

Segmental loss of the polishing materials and equipments division increased from approximately HK$28.8 million in 2008 to HK$43.0 million in 2009, which was mainly due to the loss on revaluation of buildings amounting to approximately HK$20.1 million for the year ended 31 December 2009. The gross profit margin of polishing materials and equipments division had been improved from 5.2% in 2008 to 8.1% in 2009.

Since the recovery of financial market during 2009, the investment division recorded a segmental profit of approximately HK$240.5 million, as compared with the segmental loss of approximately HK$236.2 million in 2008, which was mainly caused by the decrease in fair value of held for trading investments amounting to approximately HK$15.8 million and the impairment loss on available-for-sale investments amounting to approximately HK$199.5 million in 2008. In addition, the Group recorded gain on disposal of its interests in associates amounting to approximately HK$97.5 million in 2009.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2009, the Group had interest-bearing bank borrowings of approximately HK$11.5 million (31 December 2008: HK$14.2 million), which were of maturity within one year. The Board expects that all the bank borrowings will be repaid by internal generated funds or rolled over upon the maturity and continues to provide funding to the Group's operations. At 31 December 2009, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$59.9 million (31 December 2008: HK$84.9 million) and the held for trading investments with carrying amount of HK$115.2 million (31 December 2008: HK$80.1 million) have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

At 31 December 2009, current assets of the Group amounted to approximately HK$587.9 million (31 December 2008: HK$369.6 million). The Group's current ratio was approximately 9.1 as at 31 December 2009 as compared with 4.2 as at 31 December 2008. At 31 December 2009, the Group had total assets of approximately HK$892.3 million (31 December 2008: HK$721.1 million) and total liabilities of approximately HK$68.3 million (31 December 2008: HK$90.4 million), representing a gearing ratio (measured as total liabilities to total assets) of 7.7% as at 31 December 2009 as compared with 12.5% as at 31 December 2008.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS

At 31 December 2009, the Group held available-for-sales investments, interests in associates, convertible bonds designated as financial assets at fair value through profit or loss and held for trading investments amounting to approximately HK$137.1 million, HK$135.4 million, HK$101.3 million and HK$115.2 million respectively. During the year, the Group recorded gain on disposal of associates amounting to approximately HK$97.5 million and increase in fair value of held for trading investments amounting to approximately HK$17.3 million.

At 31 December 2008, the Group held interests in associates and held for trading investments amounting to approximately HK$225.4 million and HK$80.1 million respectively.

FOREIGN EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2009 and 2008.

CAPITAL COMMITMENTS

At 31 December 2009, the Group had capital commitments in respect of acquisition of an associate amounting to approximately HK$120.0 million which are contracted for but not provided in the financial statements.

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

ADVANCE TO AN ENTITY

On 15 January 2008, Smart Genius Limited ("Smart Genius"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding (the "MOU") with Crown Sunny Limited ("Crown Sunny"), in relation to the intention of the proposed acquisition of 51% equity interests in Giant Billion, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Crown Sunny. On 30 January 2008, Smart Genius further entered into a heads of agreement ("Heads of Agreement") with Crown Sunny.

Refundable deposits of HK$32,000,000 and HK$48,000,000, totaling HK$80,000,000, had been paid to Crown Sunny upon execution of the MOU and the Heads of Agreement respectively.

On 19 May 2009, Smart Genius entered into a formal agreement with Crown Sunny to acquire 49% equity interest in Giant Billion at a consideration of HK$200,000,000. The deposits of HK$80,000,000 paid will be applied as part of the consideration. The acquisition was completed on 1 February 2010.

Management Discussion and Analysis

OUTLOOK

2010 is expected to be both a crucial, yet complicated year in terms of economic development in Hong Kong and the PRC as they continue to counteract the global financial crisis while maintaining a stable and comparatively fast economic growth as well as accelerating transformation in growth patterns. The Group will continue to explore and develop profitable businesses while enforcing cost-saving measures, especially with respect to the manufacturing and trading of products in order to enhance its profit ratio.

The acquisition of 49% equity interest in Giant Billion was completed in February 2010. In view of the fact that the PRC has one of the largest television viewing markets in the world and that cable networks provide an important means of television transmission in the PRC, the Group intends to develop the business in the media and advertising sector in the PRC. The cable television industry in the PRC has great potential for further development as the majority of urban households subscribe to basic cable television services. The Directors consider that the investment in Giant Billion will provide a good opportunity for the Company to participate in the media industry in the PRC and bring reasonable return to the Group. The respective digital sports television channel is ready for public broadcast.

The competition in the polishing materials market in both Hong Kong and Mainland China has remained keen in 2009. The Group has made every effort to control its costs, taken advantage of its well-established sales network and expanded its distribution network. As one of the cost saving measures of the Group, in November 2009, the wholly-owned subsidiaries of the Company. Best Chief Ventures Limited ("Best Chief"), Teamcom Group Limited ("Teamcom") and PME International Company Limited ("PMEI"), entered into a conditional sale and purchase agreement to dispose of its 100% equity interest in Magic Horizon Investment Limited ("Magic Horizon") (collectively, the "Disposal"). Magic Horizon and its subsidiaries ("Magic Horizon Group") are principally engaged in the manufacturing and trading of polishing materials. Taking into account of the continuing losses incurred by Magic Horizon Group, the Disposal represents a good opportunity for the Company to realize its investment in Magic Horizon Group and to free up resources for development and investment in other potential business opportunities. Completion of the Disposal is subject to, inter alia, shareholders' approval at the extraordinary general meeting to be convened and held by the Company.

Taking advantage of the recovery of the Hong Kong stock market in the second half of 2009, the Group recorded a considerable sum of investment gain from its trading in listed securities. As the recovery of the global economy remains uncertain and as there remains potential pitfalls in the external environment, the Directors will continue to adopt prudent investment policies, but believe that attractive investment opportunities are still available as companies and businesses may well be undervalued in a volatile financial market.

In January 2010, the Company announced a potential strategic cooperation regarding the restructuring and development of natural resources business in the PRC as part of the Company's ongoing efforts to consider further diversification of its business portfolio and risk management. The Directors have been actively seeking different business opportunities to diversify its businesses and will grasp every investment and business opportunities as they arise to enhance value for its shareholders.

EMPLOYEES AND REMUNERATION

At 31 December 2009, the Group had approximately 150 (2008: 210) employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance of the Company is crucial to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2009.

THE BOARD OF DIRECTORS

The Board comprises five Executive Directors and three Independent Non-Executive Directors ("INEDs"). The brief biographic details of and the relationship among Board members is set out in the Directors' and Senior Management's Profiles on pages 12 and 13. The Board has established three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee. Attendance of the Board Meetings and the meetings of the Board Committees is given below and their respective responsibilities are discussed later in this report:

	No. of meetings attended/eligible to attend			
	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Cheng Kwok Woo	6/6		1/1	1/1
Cheng Kwong Cheong	6/6			1/1
Chan Shui Sheung Ivy	6/6			
Tin Ka Pak	5/6			
Yeung Sau Han Agnes	6/6			
Independent Non-Executive Directors				
Chow Fu Kit Edward	6/6	2/2	1/1	1/1
Leung Yuen Wing	5/6	2/2	1/1	1/1
Soong Kok Meng	5/6	2/2		1/1

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

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

Corporate Governance Report

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION COMMITTEE

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

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

NOMINATION COMMITTEE

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

Corporate Governance Report

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

AUDIT COMMITTEE

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

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

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the Directors. Following a specific enquiry, all Directors confirmed they have complied with the standards set out in the Model Code throughout the year ended 31 December 2009.

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

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibility for preparing the financial statements of the Group. As at 31 December 2009, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

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

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

Corporate Governance Report

AUDITOR'S REMUNERATION

For the year ended 31 December 2009, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The auditor's remuneration in relation to the audit and non-audit services for the year amounted to HK$750,000 and HK$101,000 respectively.

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

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 28 April 2010

Directors' and Senior Management's Profiles

DIRECTORS

Executive Directors

Mr. Cheng Kwok Woo, aged 53, is the Chairman of the Group. He joined the Group in 1990 and is responsible for strategic planning, business development and Board issues of the Group. He has over 25 years of experience in the trading and manufacturing of abrasive products. Mr. K.W. Cheng is the brother of Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Mr. Cheng Kwong Cheong, aged 49, is the Vice-Chairman and Chief Executive Officer of the Group. He joined the Group in 1990 and is responsible for overall operations and development of the Group. He has 26 years of experience in the trading and manufacturing of abrasive products. Mr. K.C. Cheng is the brother of Mr. Cheng Kwok Woo and Ms. Cheng Wai Ying.

Ms. Chan Shui Sheung Ivy, aged 45, joined the Group in May 2007 and is responsible for business development of the Group. She holds a Master degree of Business Administration from the University of South Australia. She has over 16 years of experience in investment. She is also an executive director of China Railway Logistics Limited and ZZNode Technologies Company Limited, which are listed on the Stock Exchange.

Mr. Tin Ka Pak, aged 34, joined the Group in May 2008 and is responsible for investment projects and investor relationship of the Group. He holds a Bachelor degree of Business Administration from Oxford Brookes University in the United Kingdom. He has been working in companies listed on the Stock Exchange to assist the chairman and CEO in group management, strategic planning, sales and marketing development, investment evaluation, and investor relationship. He is also an executive director of China Bio-Med Regeneration Technology Limited and ZZNode Technologies Company Limited, which are listed on the Stock Exchange.

Ms. Yeung Sau Han Agnes, aged 44, joined the Group in May 2007 and is responsible for business development of the Group. She graduated from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) with a higher diploma in fashion design. She is also an executive director of China Railway Logistics Limited, which is listed on the Stock Exchange.

Independent Non-executive Directors

Mr. Chow Fu Kit Edward, aged 43, was appointed as an independent non-executive director in August 2007. He has over 10 years of experience in power industry and is specialised in business strategy development and change management for power company. He holds a Master degree of Engineering in Mechanical Engineering from The University of Hong Kong and a Master degree of Business Administration from The Chinese University of Hong Kong. He is a Chartered Engineer, member of Institution of Mechanical Engineers and The Hong Kong Institution of Engineers.

Directors' and Senior Management's Profiles

Mr. Leung Yuen Wing, aged 43, was appointed as an independent non-executive director in September 2004. He had held managerial positions in various renowned accounting firms, an investment bank and two listed companies. He is currently the Corporate Finance Director of Samvo Group whose headquarters is in London and engaged in the online entertainment business. He is a member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants.

Mr. Soong Kok Meng, aged 47, was appointed as an independent non-executive director in July 2007. He has over 20 years of sales and marketing experience. He graduated from Singapore Polytechnic with an advanced diploma in plastic technology and holds a Master degree of Science from University of Manchester Institute of Science and Technology.

SENIOR MANAGEMENT

Mr. Chow Yin Kwang, aged 71, is the project director of the Group. He joined the Group in 1995 and is responsible for the project development, production and quality management of the Group. He has over 10 years of experience in the Group's project development, operation and quality management. Before joining the Group, Mr. Chow had more than 30 years of experience in operation management.

Ms. Cheng Wai Ying, aged 51, is the financial controller of the Group. She joined the Group in 1990 and is responsible for the financial management of the Group. She has over 25 years of experience in financial management and business operation management. Ms. Cheng is the sister of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

Ms. Chan Yim Fan, aged 59, is the logistics director of the Group. She joined the Group in 1990 and is responsible for the logistics of the Group including product supply, delivery, storage, raw materials as well as trading product procurement. She has over 20 years of experience in logistics management.

Mr. Chan Yee Kam, aged 49, is the sales manager of the Group. He joined the Group in 2008 and is responsible for product sales and promotion of the Group. He graduated from The Hong Kong Polytechnic University with a Diploma in Business Management. He has over 20 years of experience in the sales of abrasive products.

Directors' and Senior Management's Profiles

Mr. Fong Siu Chung, aged 48, is the marketing development manager of the Group. He joined the Group in 1996 and is responsible for market and product development of the Group. He holds a Bachelor degree from National Chengchi University of Taiwan.

Mr. Lam Chi Wai, aged 37, is the marketing manager of the Group. He joined the Group in 2002 and is responsible for the sales services affairs and marketing research of the Group. He holds a Bachelor degree of Social Sciences from Hong Kong Baptist University.

Mr. Tam Kwok Kuen, aged 46, is the logistics manager of the Group. He joined the Group in 2003 and is responsible for product delivery and storage of the Group. He holds a Master degree of Business Administration from Royal Melbourne Institute of Technology University, Australia. Before joining the Group, he had worked in HSBC Group. He has more than 17 years of experience in the field of international trade.

Mr. Lee Kam Wing, aged 44, is the information technology manager of the Group. He joined the Group in 1992 and is responsible for the management of system operations and network infrastructure of the Group. He holds a Bachelor degree of Science in Computing and Networking from The Open University of Hong Kong. Before joining the Group, he had worked in the information technology sector of various listed companies in Hong Kong for 10 years.

Ms. Yip Chui Ling, aged 34, is the corporate planning analyst of the Group. She joined the Group in 2003 and is responsible for corporate planning and compliance affairs of the Group. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. She holds a Master degree of Business Administration from The Chinese University of Hong Kong.

Report of the Directors

The directors of the Company have pleasure in presenting their annual report and the audited financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

Details of the activities of the principal subsidiaries of the Company are set out in note 49 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31 December 2009 is set out in note 8 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 24 and 25 of the annual report.

The directors do not recommend payment of final dividend for the year ended 31 December 2009.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 109 and 110 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year together with the reasons therefore and up to the date of this report are set out in note 38 to the financial statements.

Report of the Directors

SHARE PREMIUM AND RESERVES

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

At the balance sheet date, in the opinion of the directors, the Company's share premium and reserves available for distribution to shareholders amounted to HK$644,799,000.

Movement in the share premium and reserves of the Group during the year are set out on page 28 of the annual report.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purposes to enable the directors of the Company to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group. Summary of the terms of the share option scheme and the movements of the share option scheme are set out in note 40 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 11.7 per cent and 47.5 per cent respectively of the Group's total purchases for the year.

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

RELATED PARTY TRANSACTIONS

Related party transactions during the year are disclosed in note 46 to the financial statements.

Report of the Directors

DIRECTORS

The directors of the Company during the year ended 31 December 2009 and up to the date of this report were:

Executive directors
Mr. Cheng Kwok Woo, *Chairman*
Mr. Cheng Kwong Cheong, *Vice-Chairman and CEO*
Ms. Yeung San Han Agnes
Ms. Chan Shui Sheung Ivy
Mr. Tin Ka Pak

Independent non-executive directors
Mr. Leung Yuen Wing
Mr. Soong Kok Meng
Mr. Chow Fu Kit Edward

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

The biographic details of the directors are set out on pages 12 and 13 of the annual report.

DIRECTORS' SERVICES CONTRACTS

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

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

Report of the Directors

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

At 31 December 2009, the directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code:

Long positions in the ordinary shares/underlying shares of the Company:

	Number of shares/underlying shares held			
Directors	**Personal interests**	**Corporate interests**	**Total interests**	**Percentage of interests**
Mr. Cheng Kwok Woo	60,900,000	318,438,000 *(note)*	379,338,000	21.01%
Mr. Cheng Kwong Cheong	60,900,000	318,438,000 *(note)*	379,338,000	21.01%
Ms. Chan Shui Sheung Ivy	15,000,000	–	15,000,000	0.83%
Ms. Yeung Sau Han Agnes	15,000,000	–	15,000,000	0.83%

Note: These shares are held by PME Investments (BVI) Co., Ltd. ("PME Investments"), a company incorporated in the British Virgin Islands (the "BVI"). Each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong beneficially own 50% of the entire issued share capital of PME Investments.

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

Report of the Directors

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

The Company operates a share option scheme for the purposes to enable the Directors to grant options to certain full-time employees (including executive directors, nonexecutive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group.

The movements of share options during the year ended 31 December 2009 are as follows:

Name of grantee	Exercise price	Exercisable period	As at 1.1.2009	Granted during the year	Exercised/ Lapsed during the year	As at 31.12.2009
	HK$					
Mr. Cheng Kwok Woo	0.075	31.10.2008– 31.10.2011	6,500,000	–	–	6,500,000
Mr. Cheng Kwong Cheong	0.075	31.10.2008– 31.10.2011	6,500,000	–	–	6,500,000
Ms. Chan Shui Sheung Ivy	1.198	22.10.2007– 22.10.2010	15,000,000	–	–	15,000,000
Ms. Yeung Sau Han Agnes	1.198	22.10.2007– 22.10.2010	15,000,000	–	–	15,000,000
Other employees	0.075	31.10.2008– 31.10.2011	5,500,000	–	(2,500,000)	3,000,000
			48,500,000	–	(2,500,000)	46,000,000

Save as disclosed above, at no time during the year ended 31 December 2009 were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company to acquire such rights in any other corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules, the following persons were interested (including short positions) in the shares of underlying shares of the Company:

Long positions in the ordinary shares/underlying shares of the Company:

Name	*Notes*	Number of shares/ underlying shares held	Percentage of interests
PME Investments	*1*	318,438,000	17.64%
Mr. Cheng Kwok Woo	*2*	379,338,000	21.01%
Mr. Cheng Kwong Cheong	*2*	379,338,000	21.01%
Ms. Tsang Sui Tuen	*3*	379,338,000	21.01%
Ms. Wan Kam Ping	*4*	379,338,000	21.01%
Crown Sunny Limited	*5*	300,000,000	16.62%
Mr. Wu Jia Neng	*6*	300,000,000	16.62%

Notes:

1. PME Investments is an investment holding company incorporated in the BVI and its entire issued share capital is beneficially owned as to 50% by each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

2. Each of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong personally holds 60,900,000 shares/underlying shares of the Company. Each of them is further beneficially interested in 50% of PME Investments and is accordingly deemed to be interested in the entire interests of PME Investments in the Company.

3. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interest in 379,338,000 shares/underlying shares of the Company that Mr. Cheng Kwok Woo has interest in.

4. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interest in 379,338,000 shares/underlying shares of the Company that Mr. Cheng Kwong Cheong has interest in.

5. The interest represents the convertible bonds to be issued by the Company at a principal amount of HK$60,000,000 at a conversion price of HK$0.2 per conversion share.

6. Mr. Wu Jia Neng holds entire equity interests of Crown Sunny Limited and is accordingly deemed to have interests in 300,000,000 underlying shares of the Company that Crown Sunny Limited has interests in.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2009.

Report of the Directors

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 8 to 11 of the annual report.

PUBLIC FLOAT

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

AUDITOR

A resolution to re-appoint SHINEWING (HK) CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Cheng Kwong Cheong
Vice-Chairman & CEO

Hong Kong, 28 April 2010

Independent Auditor's Report

信永中和
ShineWing

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

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

We have audited the consolidated financial statements of PME Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 108, which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
28 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	7	**319,588**	298,089
Revenue		**176,709**	211,256
Cost of sales		**(162,370)**	(200,003)
Gross profit		**14,339**	11,253
Other income, gain and loss	9	**13,158**	8,120
Selling and distribution expenses		**(12,192)**	(10,676)
Administrative expenses		**(64,368)**	(71,088)
Increase (decrease) in fair value of investment property		**900**	(694)
Loss on revaluation on buildings		**(20,107)**	–
(Loss) gain on disposal of subsidiaries	42	**(31,787)**	5,815
Loss on deemed partial disposal of an associate	22	**(6,301)**	–
Gain on disposal of associates	22	**97,498**	–
Gain on disposal of held for trading investments		**26,988**	24,907
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	27	**165,370**	154,465
Impairment loss recognised in respect of available-for-sale investments	20	**–**	(199,500)
Impairment loss recognised in respect of acquisition of an associate	22	**–**	(43,674)
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	21	**–**	(161,008)
Impairment loss recognised in respect of loan receivables and interest receivables	30	**(29,893)**	–
Increase (decrease) in fair value of held for trading investments		**17,318**	(15,792)
Return on advances and charge over assets granted to an associate	23	**18,898**	–
Share of results of associates		**(1,109)**	29,943
Share of result of a jointly controlled entity		**1,356**	172
Finance costs	10	**(1,032)**	(1,163)
Profit (loss) before taxation		**189,036**	(268,920)
Taxation	13	**(29,985)**	528
Profit (loss) for the year	14	**159,051**	(268,392)
Attributable to:			
Owners of the Company		**158,359**	(268,371)
Minority interests		**692**	(21)
		159,051	(268,392)
Earnings (loss) per share *(Expressed in HK cents)*			
Basic	16	**8.99**	(16.62)
Diluted	16	**8.93**	(16.62)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Profit (loss) for the year	**159,051**	(268,392)
Other comprehensive income		
Exchange differences arising from translation of foreign operations	**–**	3,482
Exchange differences arising from translation of an associate	**–**	1,586
Share of other comprehensive income of associates	**213**	(1,238)
Disposal of associates	**(567)**	–
Transfer of investment revaluation reserve on available-for-sale investments to profit or loss	**–**	(1,405)
Net fair value gain on available-for-sale investments	**22,774**	–
Loss on revaluation on buildings	**(2,533)**	(1,386)
Deferred tax arising on revaluation on available-for-sale investments	**(3,758)**	–
Deferred tax arising on revaluation on building	**1,305**	374
Other comprehensive income for the year (net of tax)	**17,434**	1,413
Total comprehensive income (expense) for the year	**176,485**	(266,979)
Total comprehensive income (expense) attributable to:		
Owners of the Company	**175,793**	(266,958)
Minority interests	**692**	(21)
	176,485	(266,979)

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment	17	20,049	105,999
Investment property	18	4,100	3,200
Prepaid lease payments	19	–	11,020
Available-for-sale investments	20	137,101	66
Goodwill	21	–	–
Interests in associates	22	135,449	225,410
Interest in a jointly controlled entity	24	7,357	6,001
Club debentures		350	350
		304,406	352,046
Current assets			
Inventories	25	9,456	27,017
Debtors, bills receivable, deposits and prepayments	26	162,811	158,018
Convertible bonds designated as financial assets at fair value through profit or loss	27	101,319	7,047
Amount due from a jointly controlled entity	28	–	111
Amount due from an associate	29	44,631	–
Loan receivables	30	52,700	58,650
Prepaid lease payments	19	–	290
Taxation recoverable		574	643
Held for trading investments	31	115,159	80,112
Deposits placed with financial institutions	32	3,203	19,579
Bank balances and cash	33	14,591	18,150
		504,444	369,617
Assets classified as held for sale	34	83,427	–
		587,871	369,617
Current liabilities			
Creditors and accruals	35	12,270	72,761
Taxation payable		32,398	802
Obligation under a finance lease	36	–	74
Bank and other loans	37	11,515	14,211
		56,183	87,848
Liabilities directly associated with assets classified as held for sale	34	8,423	–
		64,606	87,848
Net current assets		523,265	281,769
Total assets less current liabilities		827,671	633,815

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Capital and reserves			
Share capital	38	**18,052**	17,586
Reserves		**804,947**	613,369
Equity attributable to owners of the Company		**822,999**	630,955
Minority interests		**968**	276
Total equity		**823,967**	631,231
Non-current liabilities			
Obligation under a finance lease	36	–	132
Deferred taxation	39	**3,704**	2,452
		3,704	2,584
		827,671	633,815

The consolidated financial statements on pages 24 to 108 were approved and authorised for issue by the board of directors on 28 April 2010 and are signed on its behalf by:

Cheng Kwong Cheong
Director

Chan Shui Sheung Ivy
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (Note)	Translation reserve HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Other reserve HK$'000	Accumulated profits (losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	15,986	846,510	(38,581)	4,990	7,010	7,176	1,405	–	31,055	875,551	311	875,862
Loss for the year	–	–	–	–	–	–	–	–	(268,371)	(268,371)	(21)	(268,392)
Other comprehensive income (expenses) for the year	–	–	–	3,830	–	(1,012)	(1,405)	–	–	1,413	–	1,413
Total comprehensive income (expense) for the year	–	–	–	3,830	–	(1,012)	(1,405)	–	(268,371)	(266,958)	(21)	(266,979)
Recognition of equity-settled share-based payment	–	–	–	–	2,511	–	–	–	–	2,511	–	2,511
Issue of shares upon placing *(Note 38)*	1,600	14,400	–	–	–	–	–	–	–	16,000	–	16,000
Share issue expenses	–	(479)	–	–	–	–	–	–	–	(479)	–	(479)
Share option cancelled	–	–	–	–	(2,079)	–	–	–	2,079	–	–	–
Share of reserves of associates	–	–	–	–	4,486	–	–	–	–	4,486	–	4,486
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	358	358
Disposal of subsidiaries	–	–	(7,200)	(156)	–	(4,936)	–	–	12,136	(156)	(372)	(528)
At 31 December 2008	17,586	860,431	(45,781)	8,664	11,928	1,228	–	–	(223,101)	630,955	276	631,231
At 1 January 2009	**17,586**	**860,431**	**(45,781)**	**8,664**	**11,928**	**1,228**	**–**	**–**	**(223,101)**	**630,955**	**276**	**631,231**
Profit for the year	–	–	–	–	–	–	–	–	**158,359**	**158,359**	**692**	**159,051**
Other comprehensive income (expenses) for the year	–	–	–	**(354)**	–	**(1,228)**	**19,016**	–	–	**17,434**	–	**17,434**
Total comprehensive income (expenses) for the year	–	–	–	**(354)**	–	**(1,228)**	**19,016**	–	**158,359**	**175,793**	**692**	**176,485**
Issue of shares upon exercise of share options *(Note 38)*	**25**	**221**	–	–	**(58)**	–	–	–	–	**188**	–	**188**
Issue of shares for settlement of a liability *(Note 38)*	**441**	**18,521**	–	–	–	–	–	–	–	**18,962**	–	**18,962**
Share of reserves of associates	–	–	–	–	**5,021**	–	**135**	**1,452**	–	**6,608**	–	**6,608**
Disposal of associates	–	–	–	–	**(9,507)**	–	–	–	–	**(9,507)**	–	**(9,507)**
At 31 December 2009	**18,052**	**879,173**	**(45,781)**	**8,310**	**7,384**	**–**	**19,151**	**1,452**	**(64,742)**	**822,999**	**968**	**823,967**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	**189,036**	(268,920)
Adjustments for:		
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	**(165,370)**	(154,465)
(Increase) decrease in fair value of held for trading investments	**(17,318)**	15,792
(Increase) decrease in fair value of investment property	**(900)**	694
Depreciation of property, plant and equipment	**8,519**	8,481
Discount on issue of shares for settlement of a liability	**(3,087)**	–
Finance costs	**1,032**	1,163
Gain on disposal of associates	**(97,498)**	–
(Gain) loss on disposal of property, plant and equipment	**(1)**	40
Interest income	**(8,499)**	(6,219)
Impairment loss on trade debtors	**5,153**	8,457
Impairment loss recognised in respect of available-for-sale investments	**–**	199,500
Impairment loss recognised in respect of acquisition of an associate	**–**	43,674
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	**–**	161,008
Imputed interest income on deposits placed with an insurer	**–**	(18)
Loss (gain) on disposal of subsidiaries	**31,787**	(5,815)
Impairment loss recognised in respect of loans receivables and interest receivables	**29,893**	–
Loss on deemed partial disposal of an associate	**6,301**	–
Amortisation of prepaid lease payments	**290**	286
Loss on revaluation on buildings	**20,107**	–
Return on advances and charge over assets granted to an associate	**(18,898)**	–
(Reversal of) allowance for inventories	**(618)**	118
Reversal of impairment loss on trade debtors	**(240)**	–
Share-based payments	**–**	2,511
Share of result of a jointly controlled entity	**(1,356)**	(172)
Share of results of associates	**1,109**	(29,943)
Operating cash flows before movements in working capital	**(20,558)**	(23,828)
Decrease in deposits placed with an insurer	**–**	3,755
Decrease in inventories	**10,587**	5,143
Increase in debtors, bills receivable, deposits and prepayments	**(18,309)**	(82,650)
Increase in convertible bonds designated as financial assets at fair value through profit or loss	**(86,809)**	(70,332)
(Increase) decrease in amount due from a jointly controlled entity	**(2,163)**	242
Increase in loans receivables	**(20,118)**	(46,920)
Increase in held for trading investments	**(15,909)**	(68,860)
Decrease in deposits placed with financial institutions	**16,376**	204,871
(Decrease) increase in creditors and accruals	**(35,473)**	53,459
Cash used in operations	**(172,376)**	(25,120)
Income tax refunded	**73**	–
Income tax paid	**–**	(101)
NET CASH USED IN OPERATING ACTIVITIES	**(172,303)**	(25,221)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
INVESTING ACTIVITIES		
Disposal of associates	171,025	–
Disposal of subsidiaries *(Note 42)*	28,506	3,614
Interest received	5,438	3,634
Proceeds from disposal of property, plant and equipment	5	27
Advances to an associate	(22,672)	(7,000)
Purchases of available-for-sale investments	(12,653)	–
Purchases of property, plant and equipment	(1,099)	(3,807)
Acquisition of a subsidiary *(Note 41)*	(35)	–
Advances of loan receivables	–	(7,000)
Acquisition of associates	–	(117,388)
Purchase of an investment property	–	(3,428)
Repayment from an associate	–	7,000
NET CASH FROM (USED IN) INVESTING ACTIVITIES	168,515	(124,348)
FINANCING ACTIVITIES		
Other loans raised	5,866	–
Proceeds from issue of shares upon exercises of options	188	–
Repayments of bank loans	(3,198)	(51,999)
Interest paid	(1,014)	(1,141)
Repayments of obligation under a finance lease	(206)	(67)
Finance lease charges paid	(18)	(22)
New bank loans raised	–	43,478
Proceeds from placing of new shares	–	16,000
Share issue expenses for placing	–	(479)
NET CASH FROM FINANCING ACTIVITIES	1,618	5,770
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,170)	(143,799)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	18,146	164,967
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	(3,022)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	15,976	18,146
Cash and cash equivalents at the end of the year, represented by:		
Bank balances and cash	14,591	18,150
Bank overdrafts *(Note 37)*	(94)	(4)
Bank balances and cash included in assets classified as held for sales *(Note 34)*	1,479	–
	15,976	18,146

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL

PME Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the annual report.

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

The Company and its subsidiaries (collectively referred to as the "Group") are engaged in investment in trading of equity securities, manufacture and trading of polishing materials and investment holding. The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in Note 49.

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

In the current year, the Group has applied a number of new and revised standards, amendments to standards and interpretation ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Hong Kong Accounting Standards ("HKAS") 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments (see Note 8) and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosure required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosure in accordance with the transitional provision set out in the amendments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

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

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Interpretation ("INT") 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC)-INT 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-INT 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 January 2011.
6 Effective for annual periods beginning on or after 1 July 2010.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs issued in 2009*, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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

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

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

Business combinations

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

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

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

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

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

Jointly controlled entities

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities (Continued)

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

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Revenue recognition

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

Revenue from the sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Rental income is recognised on a straight-line basis over the period of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rates applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Property, plant and equipment

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

Leasehold land and buildings held for use in the production or supply of goods are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

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

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

Investment property

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

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

Intangible asset

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Prepaid lease payments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and buildings

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective basis for debt instruments.

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Convertible bonds

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including amount due from a jointly controlled entity and an associate, debtors, deposits, bills receivable, deposits placed with financial institutions, loan receivables and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors, amounts due from a jointly controlled entity and an associate and loan receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor, amount due from a jointly controlled entity and an associate and a loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including creditors and accruals, obligation under a finance lease and bank and other loans) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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

Impairment losses on tangible assets and intangible asset

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Taxation

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Share options granted to employees

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying the entity's accounting policies

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

Estimated impairment loss of goodwill arising from subsidiaries

Determining whether goodwill is impaired requires an estimation of the future cash flows expected to arise from the subsidiaries in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2008, impairment loss on goodwill of subsidiaries of HK$161,008,000 is considered as necessary (2009: Nil).

Key sources of estimation uncertainty

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

Key sources of estimation uncertainty (Continued)

Useful lives of property, plant and equipment

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

Estimated impairment loss on interests in an associate

Determining whether interest in an associate is impaired requires an estimation of the expected dividend yield from the associate in order to calculate the present value. Where the actual future cash flows are less than expected; a material impairment loss may arise. During the year ended 31 December 2008, impairment loss on interest in an associate of HK$43,674,000 is considered as necessary. No impairment loss had been recognised for the year ended 31 December 2009.

Estimated impairment loss on trade and other debtors

The Group makes impairment loss based on an assessment of the recoverability of trade and other debtors. Allowances are applied to trade and other debtors where events or change in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. In determining whether impairment loss on debtors is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. As at 31 December 2009, the carrying amount of trade debtors is approximately HK$52,768,000 (net of impairment loss of approximately HK$19,858,000) (31 December 2008: carrying amount of approximately HK$62,997,000, net of impairment loss of approximately HK$14,945,000). No impairment loss was made on other debtors for the two years ended 31 December 2009.

Estimated allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. During the year ended 31 December 2008, the Group recognised an allowance of approximately HK$118,000 (2009: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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

Key sources of estimation uncertainty (Continued)

Estimated impairment loss on available-for-sale investments

In determining whether there is objective evidence of impairment in relation to the Group's available-for-sale investments in equity securities, the Group takes into consideration of significant or prolonged decline in the market prices below the respective costs. As at 31 December 2009, the carrying amount of available-for-sales investments is approximately HK$137,101,000 (2008: HK$66,000). The directors performed impairment assessment of the Group's available-for-sale investments and for the year ended 31 December 2008, an impairment loss of approximately HK$200,905,000 were recognised, of which HK$1,405,000 had been transferred from investment revaluation reserve to profit or loss and HK$199,500,000 had been recognised directly in the consolidated income statement. No impairment was recognised for the year ended 31 December 2009. Details of impairment assessment of available-for-sale investments are set out in Note 20.

Estimated impairment loss on loan and interest receivables

During the year ended 31 December 2009, the Group recognised impairment loss on loan and interest receivables from an independent third party amounting to approximately HK$29,893,000 (2008: Nil). The directors of the Company had assessed the recoverability of the loan receivables on an individual basis, and had considered the repayment history of the borrower and its ability to repay. The directors of the Company had made repeated demands without success and are of the opinion that the outstanding loan receivables as at 31 December 2009 are irrecoverable, and full impairment had been charged to the consolidated income statement accordingly. Details of impairment assessment on loan receivables are set out in Note 30.

Fair value of convertible bonds

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

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank and other loans, obligation under a finance lease, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 HK$'000	2008 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	253,540	244,189
Available-for-sale financial assets	137,101	66
Fair value through profit or loss		
– Convertible bonds designated as financial assets at fair value through profit or loss	101,319	7,047
– Held for trading investments	115,159	80,112
Financial liabilities		
Other financial liabilities at amortised cost	23,785	87,178

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held for trading investments, convertible bonds designated as financial assets at fair value through profit or loss, deposits placed with financial institutions, loan receivables, amount due from a jointly controlled entity and an associate, bank balances and cash, bank and other loans, debtors, deposits, bills receivable, creditors and accruals. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

(i) Market risk

Currency risk

Several subsidiaries have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 9% (2008: 31%) of the Group's purchase are denominated in currencies other than the functional currency of the group entity. The management considers the Group is not exposed to significant foreign currency risk in relation to Renminbi ("RMB") as the operations and transaction of the Company's subsidiary operating in the People's Republic of China (the "PRC") is denominated in its functional currency of RMB. The Group also has bank balances, debtors, creditors and bank loans denominated in foreign currencies. Since the fluctuation of HK$ against United States dollar ("USD") are minimal under the Linked Exchange Rate System, the management consider the Group mainly expose to the currency of Euro and Japanese Yen.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS (Continued)

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

(i) Market risk (Continued)

Currency risk (Continued)

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

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

	2009	2008
	HK$'000	*HK$'000*
Assets		
USD	**1,199**	863
Japanese Yen	**494**	373
Euro	**19**	3
	1,712	1,239
Liabilities		
USD	**1,587**	14,449
Japanese Yen	**9,010**	28,634
Euro	**1,177**	7,511
	11,774	50,594

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in HK$ against relevant foreign currencies. 5% (2008: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% (2008: 5%) change in foreign currency rates. A positive number indicates an increase in post-tax profit (2008: decrease in post-tax loss) for the year when HK$ strengthens 5% (2008: 5%) against the relevant foreign currencies. For a 5% (2008: 5%) weakening of HK$ against the relevant currencies, there would be an equal but opposite impact on the profit (loss) for the year.

	2009	2008
	HK$'000	*HK$'000*
Japanese Yen		
Profit (loss) for the year	**(426)**	1,413
Euro		
Profit (loss) for the year	**(58)**	375

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS (Continued)

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

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

Fair value and cash flow interest rate risk

The Group has significant loan receivables, bills receivable, amount due from an associate, deposits placed with financial institutions, bank balances, bank loans and obligation under a finance lease which bear interest rate risk. Loan receivables, bills receivable, deposits placed with financial institutions, bank balances and bank and other loans at variable rates expose the Group to cash flow interest-rate risk. Amount due from associate, bank and other loans and obligation under a finance lease at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk.

Sensitivity analysis

At the end of the reporting period, assuming the variable rate deposits placed with financial institutions, loan receivables, bills receivable, bank balances, and bank and other loans had been outstanding for the whole year, if interest rates had increased by 200 basis points (2008: 200 basis points) and all other variables were held constant, there was an increase in post-tax profit (2008: decrease in post-tax loss) by approximately HK$1,299,000 (2008: HK$1,452,000). If interest rates had decreased by 200 basis points (2008: 200 basis points), there would be an equal but opposite impact on the profit/loss for the year. A 200 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

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

Other price risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS (Continued)

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

(i) Market risk (Continued)

Other price risk (Continued)

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to other price risks at the reporting date. If the prices of the respective equity instruments had been 30% (2008: 30%) higher/lower:

– post-tax profit for the year ended 31 December 2009 would increase/decrease by approximately HK$64,943,000 (2008: post-tax loss would decrease/increase by approximately HK$26,148,000) as a result of the changes in fair value of held for trading investments and convertible bond designated as financial assets at fair value through profit or loss; and

– investment revaluation reserve would increase/decrease by approximately HK$41,130,000 (2008: HK$20,000) for the Group as a result of the changes in fair value of available-for-sale investments.

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 December 2009, the Group has certain concentration of credit risk as 10% (2008: 11%) and 37% (2008: 36%) of the total trade and bills receivables were due from the Group's largest and the five largest customers respectively.

As at 31 December 2009, the Group has significant concentration of credit risk arising from amount due from an associate.

As at 31 December 2009, the Group has certain concentration of credit risk as 80% (2008: 44%) of the total loan receivables were due from one debtor.

However, the directors of the Company consider the credit risk is under control since the management exercise due care in granting credit and check the financial background of these debtors and associate on a regular basis.

As at 31 December 2008, the Group has significant concentration of credit risk arising from deposits placed with financial institutions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS (Continued)

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

(ii) Credit risk (Continued)

The credit risk for bank balances and deposits placed with financial institutions are considered minimal as such amounts are placed with banks and financial institutions with good credit ratings.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 60% (31 December 2008: 72%) of the total trade debtors as at 31 December 2009.

(iii) Liquidity risk

The Group's liquidity position is monitored closely by the management of the Group. The Group relies on bank and other loans as a significant source of liquidity. Details of the Groups' bank and other loans are set out in Note 37. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities in accordance with the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Within 1 year	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2009					
Creditors and accruals	**12,270**	**–**	**–**	**12,270**	**12,270**
Bank and other loans	**11,976**	**–**	**–**	**11,976**	**11,515**
	24,246	**–**	**–**	**24,246**	**23,785**
As at 31 December 2008					
Creditors and accruals	72,761	–	–	72,761	72,761
Obligation under a finance lease	90	90	53	233	206
Bank and other loans	14,716	–	–	14,716	14,211
	87,567	90	53	87,710	87,178

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

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

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

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

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are based on observable market data (unobservable inputs).

	31 December 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Available-for-sale financial assets				
– Listed equity securities	**137,101**	**–**	**–**	**137,101**
Financial assets at FVFPL				
– Convertible bonds designated as financial assets at FVTPL	**–**	**101,319**	**–**	**101,319**
– Held for trading investments	**115,159**	**–**	**–**	**115,159**
	252,260	**101,319**	**–**	**353,579**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. TURNOVER

Turnover represents the amounts received and receivable from the manufacturing and trading of polishing materials and equipments and provision of technical service, net of allowances and returns and sales tax; trading of equity securities and interest income, during the year.

	2009	2008
	HK$'000	*HK$'000*
Manufacturing and trading of polishing materials and equipments and provision of technical service	**176,707**	211,017
Proceeds from held for trading investments	**142,879**	86,833
Interest income	**2**	239
	319,588	298,089

8. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior year, segment information was analysed on the basis of the types of products manufactured or services provided, i.e. the manufacturing of abrasive products, polishing compounds and wheels, trading of polishing materials and equipment, provision of consultancy service and other strategic investment. However, information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment is more specifically focused on the overall business of polishing materials and equipments and investment on listed investments which are held for both short term trading and long-term investment purposes and for capital appreciation.

The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

Polishing materials and equipments – polishing materials and equipments and provision of technical service

Investment – investments in trading equity securities, convertible bonds, available-for-sale investments and associates

As set out in Note 34, the Group's manufacturing facilities will be disposed of upon the completion of the disposal of subsidiaries subsequent to the end of the reporting period, however, the manufacturing process will be continued through subcontracting arrangements. Relevant details are set out in Note 34.

Information regarding the above segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2009

	Polishing materials and equipments *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
Revenue			
External sales	176,707	2	176,709
Segment (loss) profit	(42,995)	240,460	197,465
Unallocated corporate expenses			(7,869)
Unallocated other income and gain			98
Finance costs			(658)
Profit before taxation			189,036

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2008

	Polishing materials and equipments	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
External sales	211,017	239	211,256
Segment loss	(28,842)	(236,176)	(265,018)
Unallocated corporate expenses			(3,880)
Unallocated other income and gain			1,119
Finance costs			(1,141)
Loss before taxation			(268,920)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of certain other income, central administration costs, directors' salaries and certain finance costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and performance assessment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

As at 31 December 2009

	Polishing materials and equipments *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	106,104	691,892	797,996
Assets classified as held for sale			83,427
Unallocated corporate assets			10,854
Consolidated total assets			892,277
LIABILITIES			
Segment liabilities	8,632	8,476	17,108
Liabilities associated with assets classified as held for sale			8,423
Unallocated corporate liabilities			42,779
Consolidated total liabilities			68,310

As at 31 December 2008

	Polishing materials and equipments *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	222,348	483,476	705,824
Unallocated corporate assets			15,839
Consolidated total assets			721,663
LIABILITIES			
Segment liabilities	12,217	60,750	72,967
Unallocated corporate liabilities			17,465
Consolidated total liabilities			90,432

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than certain bank balances and cash and assets used jointly by reportable segments.
- all liabilities are allocated to reportable segments other than certain bank loans, taxation payable, deferred taxation and liabilities for which reportable segments are jointly liable.

Other segment information

As at 31 December 2009

	Polishing materials and equipments *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to non-current assets *(Note)*	162	937	1,099
Depreciation of property, plant and equipment	7,995	524	8,519
Amortisation of prepaid lease payments	290	–	290
Gain on disposal of property, plant and equipment	–	(1)	(1)
Increase in fair value of investment property	–	(900)	(900)
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	–	(165,370)	(165,370)
Loss on disposal of subsidiaries	–	31,787	31,787
Loss on deemed partial disposal of an associate	–	6,301	6,301
Gain on disposal of associates	–	(97,498)	(97,498)
Share of result of associates	–	1,109	1,109
Share of result of a jointly controlled entity	(1,356)	–	(1,356)
Impairment loss recognised in respect of loan receivables and interest receivables	–	29,893	29,893
Loss on revaluation on buildings	20,107	–	20,017
Reversal of impairment loss on trade debtors	(240)	–	(240)
Impairment loss on trade debtors	5,153	–	5,153
Finance cost on margin loans	–	356	356
Finance lease charges	–	18	18
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:			
Finance costs on bank loans and overdraft			658

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

As at 31 December 2008

	Polishing materials and equipments *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to non-current assets *(Note)*	3,445	4,256	7,701
Depreciation of property, plant and equipment	8,040	441	8,481
Amortisation of prepaid lease payments	286	–	286
Loss on disposal of property, plant and equipment	40	–	40
Decrease in fair value of investment property	–	694	694
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	–	(154,465)	(154,465)
Gain on disposal of subsidiaries	(5,815)	–	(5,815)
Impairment loss recognised in respect of available-for-sale investments	–	199,500	199,500
Impairment loss recognised in respect of acquisition of an associate	–	43,674	43,674
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	–	161,008	161,008
Share of result of associates	–	(29,943)	(29,943)
Share of result of a jointly controlled entity	(172)	–	(172)
Impairment loss on trade debtors	8,457	–	8,457
Allowance for inventories	118	–	118
Finance lease charges	–	22	22
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:			
Finance costs on bank loans and overdraft			1,141

Note: Non-current assets exclude interests in associates, interests in a jointly controlled entity, financial instruments, intangible assets and assets classified as held for sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. SEGMENT INFORMATION (Continued)

Revenue from major product and services

The following is an analysis of the Group's revenue from its major products and services:

	2009 HK$'000	2008 HK$'000
Manufacturing and trading of polishing materials and equipments	176,707	209,867
Technical service	–	1,150
Investment	2	239
	176,709	211,256

Geographical information

The Group's polishing materials and equipments divisions are mainly located in Hong Kong and the PRC. Investment division is located in Hong Kong.

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

	Revenue	
	2009 HK$'000	2008 HK$'000
Hong Kong	44,011	60,264
The PRC	121,618	137,428
Other Asian regions	7,737	10,151
North America and Europe	1,027	911
Other countries	2,316	2,502
	176,709	211,256

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

	Carrying amount of non-current segment assets		Additions to property, plant and equipment and investment property	
	2009 HK$'000	2008 HK$'000	2009 HK$'000	2008 HK$'000
Hong Kong	24,149	26,497	1,099	3,980
The PRC	–	82,702	–	3,255
	24,149	109,199	1,099	7,235

Information about major customers

During the two years ended 31 December 2009 and 2008, no revenues from transactions with any single external customer amounted to 10% or more of the Group's revenues.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

9. OTHER INCOME, GAIN AND LOSS

	2009 HK$'000	2008 HK$'000
Interest income from bank	37	2,123
Interest income from loan receivables	5,401	4,096
Interest income from amount due from an associate *(Note 29)*	3,061	–
Imputed interest income on deposits placed with an insurer	–	18
Net foreign exchange gains	850	327
Rental income *(Note)*	337	527
Reversal of impairment loss on trade debtors	240	–
Discount on issue of shares for settlement of a liability *(Note 35)*	3,087	–
Sundry income	145	1,029
	13,158	8,120

Note: During the year ended 31 December 2009, the direct operating expenses from investment property that generated rental income were approximately HK$10,000 (2008: HK$24,000).

10. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interests on bank loans and overdraft wholly repayable within five years	658	1,141
Finance lease charges	18	22
Interest on other loans	356	–
	1,032	1,163

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2008: eight) directors were as follows:

2009

Name of director	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors					
Mr. Cheng Kwok Woo	–	1,004	–	48	1,052
Mr. Cheng Kwong Cheong	–	1,004	–	48	1,052
Ms. Yeung Sau Han, Agnes	–	320	–	12	332
Ms. Chan Shui Sheung, Ivy	–	470	–	19	489
Mr. Tin Ka Pak	–	470	–	12	482
Independent Non-executive Directors					
Mr. Leung Yuen Wing	120	–	–	–	120
Mr. Soong Kok Meng	120	–	–	–	120
Mr. Chow Fu Kit, Edward	120	–	–	–	120
Total for the year 2009	360	3,268	–	139	3,767

2008

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

No directors waived or agreed to waive any emoluments in the two years ended 31 December 2009 and 2008.

Note: Mr. Tin Ka Pak was appointed as an executive director on 8 May 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

12. EMPLOYEES' EMOLUMENTS

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

	2009	2008
	HK$'000	*HK$'000*
Salaries and other benefits	**3,113**	2,834
Retirement benefits scheme contributions	**32**	29
	3,145	2,863

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
	HK$'000	*HK$'000*
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**2**	1

During the two years ended 31 December 2009 and 2008, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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13. TAXATION

	2009	2008
	HK$'000	*HK$'000*
The charge (credit) comprises:		
Current tax		
Hong Kong	**31,592**	48
Overprovision in prior years		
Hong Kong	**–**	(574)
	31,592	(526)
Deferred taxation *(Note 39)*		
Current year	**(1,607)**	181
Effect of changes in tax rate	**–**	(183)
	29,985	(528)

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% from 1 January 2008 onwards.

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

No provision for PRC income tax has been made in the consolidated financial statements as the PRC subsidiary has no assessable profits for both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

13. TAXATION (Continued)

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

	2009 *HK$'000*	2008 *HK$'000*
Profit (loss) before taxation	**189,036**	(268,920)
Tax at Hong Kong Profits Tax rate of 16.5% (2008: 16.5%)	**31,191**	(44,371)
Tax effect of share of results of associates	**183**	(4,941)
Tax effect of share of result of a jointly controlled entity	**(224)**	(28)
Tax effect of expenses not deductible for tax purpose	**9,732**	77,019
Tax effect of income not taxable for tax purpose	**(17,300)**	(30,335)
Tax effect of tax loss not recognised	**6,476**	2,885
Utilisation of tax loss previously not recognised	**(73)**	–
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**–**	(183)
Overprovision in prior years	**–**	(574)
Tax charge (credit) for the year	**29,985**	(528)

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

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For the year ended 31 December 2009

14. PROFIT (LOSS) FOR THE YEAR

	2009 *HK$'000*	2008 *HK$'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**8,519**	8,481
Amortisation of prepaid lease payments	**290**	286
Staff costs, including directors' emoluments and share-based payments	**24,650**	28,026
Auditors' remuneration	**851**	750
Impairment loss on trade debtors (included in administrative expenses)	**5,153**	8,457
(Reversal of) allowance for inventories (included in cost of sales)	**(618)**	118
(Gain) loss on disposal of property, plant and equipment	**(1)**	40
Cost of inventories recognise as expenses	**162,988**	199,885
Minimum lease payment in respect of rental premises	**3,003**	2,560
Share of tax of associates (included in share of results of associates)	**1,151**	(296)

For the year ended 31 December 2008, share-based payments of HK$2,511,000 are included in staff costs (2009: Nil).

15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

16. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2009 HK$'000	2008 HK$'000
Earnings (loss)		
Profit (loss) attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	**158,359**	(268,371)

Number of shares

	2009 '000	2008 '000
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**1,761,612**	1,614,775
Effect of dilutive potential ordinary shares:		
Share options	**12,128**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**1,773,740**	1,614,775

	2009	2008
Basic earnings (loss) per share *(in HK cents)*	**8.99**	(16.62)
Diluted earnings (loss) per share *(in HK cents)*	**8.93**	(16.62)

Diluted loss per share for the year ended 31 December 2008 is the same as the basic loss per share as the conversion of the Company's outstanding share options would result in a decrease in basic loss per share.

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For the year ended 31 December 2009

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
AT COST OR VALUATION					
At 1 January 2008	91,060	55,943	14,962	4,328	166,293
Effect on exchange adjustments	5,583	1,975	235	88	7,881
Additions	–	3,459	348	–	3,807
Disposals	–	(15)	(70)	(229)	(314)
Disposal of subsidiaries	(19,680)	(90)	(141)	–	(19,911)
Decrease in revaluation	(3,413)	–	–	–	(3,413)
At 31 December 2008	73,550	61,272	15,334	4,187	154,343
Additions	–	301	798	–	1,099
Disposals	–	(5)	–	–	(5)
Decrease in revaluation	(24,670)	–	–	–	(24,670)
Classified as assets held for sale	(48,880)	(26,242)	(3,248)	(1,167)	(79,537)
At 31 December 2009	**–**	**35,326**	**12,884**	**3,020**	**51,230**
Comprising:					
At cost	–	35,326	12,884	3,020	51,230
At valuation	48,880	–	–	–	48,880
Less: classified as assets held for sale	(48,880)	–	–	–	(48,880)
	–	35,326	12,884	3,020	51,230
ACCUMULATED DEPRECIATION					
At 1 January 2008	–	26,579	11,261	3,348	41,188
Effect on exchange adjustments	–	1,122	215	72	1,409
Provided for the year	2,256	5,071	904	250	8,481
Eliminated on disposals	–	(1)	(17)	(229)	(247)
Eliminated on disposal of subsidiaries	(229)	(90)	(141)	–	(460)
Eliminated on revaluation	(2,027)	–	–	–	(2,027)
At 31 December 2008	–	32,681	12,222	3,441	48,344
Provided for the year	2,030	5,355	884	250	8,519
Eliminated on disposals	–	(1)	–	–	(1)
Eliminated on revaluation	(2,030)	–	–	–	(2,030)
Classified as assets held for sale	–	(19,768)	(2,768)	(1,115)	(23,651)
At 31 December 2009	**–**	**18,267**	**10,338**	**2,576**	**31,181**
CARRYING VALUES					
At 31 December 2009	**–**	**17,059**	**2,546**	**444**	**20,049**
At 31 December 2008	73,550	28,591	3,112	746	105,999

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17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

The leasehold property was located outside Hong Kong under medium-term lease. During the year ended 31 December 2009, the leasehold property was classified as assets held for sale.

The leasehold land and buildings of the Group were revalued by Ample Appraisal Limited, an independent firm of registered professional surveyors not connected with the Group, at 31 December 2009 by reference to market evidence of recent transactions for similar properties. The valuation conforms to International Valuation Standards. The revaluation gave rise to a net revaluation deficit of approximately HK$22,640,000 (2008: deficit of HK$1,386,000) of which HK$2,533,000 (2008: HK$1,386,000) has been charged to the property revaluation reserve and HK$20,107,000 (2008: Nil) has been charged to the consolidated income statement.

If the leasehold land and buildings of the Group had not been revalued, they would have been included at historical cost less accumulated depreciated at the carrying values of approximately HK$69,632,000 (2008: HK$71,659,000).

For the year ended 31 December 2008, motor vehicles include an amount of approximately HK$251,000 in respect of assets held under a finance lease (2009: Nil).

At 31 December 2009, buildings included in assets classified as held for sale with an aggregate carrying values of approximately HK$48,880,000 (2008: HK$73,550,000) were pledged to banks to secure banking facilities granted to the Group.

Notes to the Consolidated Financial Statements

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18. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1 January 2008	
Addition *(Note)*	3,894
Decrease in fair value recognised in the consolidated income statement	(694)
At 31 December 2008 and 1 January 2009	3,200
Increase in fair value recognised in the consolidated income statement	900
At 31 December 2009	**4,100**

The investment property of the Group was revaluated by Fame China (Consultancy) Limited, an independent firm of registered professional surveyors not connected to the Group, . Fame China (Consultancy) Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation of the investment property at 31 December 2009 was arrived at by reference to comparable transactions as available on the market.

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

Note: Included in addition for the year ended 31 December 2008 are transfer from deposits paid for acquisition of an investment property acquired from the acquisition of a subsidiary during the year (Note 41).

19. PREPAID LEASE PAYMENTS

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

	2009 ***HK$'000***	2008 *HK$'000*
Analysed for reporting purposes as:		
Non-current asset	**10,730**	11,020
Current asset	**290**	290
	11,020	11,310
Classified as assets held for sale	**(11,020)**	–
	–	11,310

At 31 December 2009, the leasehold land included in assets classified as held for sale with a carrying value of approximately HK$11,020,000 (2008: HK$11,310,000) was pledged to a bank to secure a banking facility granted to the Group.

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20. AVAILABLE-FOR-SALE INVESTMENTS

	2009 HK$'000	2008 HK$'000
Equity securities listed in Hong Kong, at fair value based on quoted market bid price		
Carrying amount at 1 January	**66**	285,471
Addition *(Note (c))*	**110,308**	–
Impairment losses recognised during the year *(Note (d))*	**–**	(200,905)
Reclassified to interests in associates *(Note (a))*	**–**	(84,500)
Reclassified from interests in associates *(Note (b))*	**3,953**	–
Net fair value gain on available-for-sale investments recognised in consolidated statement of comprehensive income	**22,774**	–
Carrying amount at 31 December	**137,101**	66

Note (a): During the year ended 31 December 2008, a substantial portion of the above equity securities represented the Group's investment in China Railway, a company incorporated in Bermuda and its shares are listed on the Growth Enterprise Market of the Stock Exchange. China Railway is principally engaged in investment holding, design, development and sale of value-added telecommunication products, and computer telephony products and logistics transportation.

As set out in Note 22, following the appointment of certain directors of the Company as directors of China Railway during the year ended 31 December 2008, the directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decision of China Railway. Accordingly, China Railway is classified as an associate since the year ended 31 December 2008.

Note (b): As set out in Note 22, the Group held approximately 29.29% equity interests in ZZNode Technologies Company Limited ("ZZNode") and classified ZZNode as an associate of the Group as at 31 December 2008. During the year ended 31 December 2009, the Company had partially disposed of its interests in ZZNode, being the disposal of an aggregate of approximately 102,000,000 shares in ZZNode in the open market, representing approximately 25.19% equity interests in ZZNode previously held by the Group, for a net cash consideration of approximately HK$111,438,000. The directors of the Company are of the opinion that the Group will no longer exercise its significant influence over the financing and operating policy decision of ZZNode and will hold the remaining shares for long-term investment purposes and for capital appreciation. Immediately after the disposal, the Group's remaining interests in ZZNode (representing approximately 4.10% of the issued share capital of ZZNode at the time of the disposal) with a carrying amount of approximately HK$3,953,000 was reclassified to available-for-sale investments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

20. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Note (c): During the year ended 31 December 2009, the Group acquired 53,738,000 shares in China Fortune Group Limited ("China Fortune") a listed company in the Main Board of the Stock Exchange from the open market. As set out in Note 27(c), the Group had acquired certain convertible bonds issued by China Fortune, and had partially converted the convertible bonds into an aggregate of 210,000,000 ordinary shares of China Fortune during the year ended 31 December 2009. As at 31 December 2009, the Group holds approximately 18.85% equity interests in China Fortune.

Note (d): During the year ended 31 December 2008, an impairment loss of approximately HK$200,905,000 was recognised, of which HK$1,405,000 was transferred from the investment revaluation reserve to profit or loss and HK$199,500,000 were recognised directly in the consolidated income statement. The fair values of the listed securities were based on quoted market prices at the time of assessment and the directors had considered the decrease in the market prices indicated a prolonged decline in the fair value of the investments.

No impairment loss had been recognised for the year ended 31 December 2009.

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21. GOODWILL

	HK$'000
COST	
At 1 January 2008	–
Arising on acquisition of subsidiaries *(Note 41)*	161,008
At 31 December 2008 and 1 January 2009	161,008
Arising on acquisition of a subsidiary *(Note 41)*	35
Disposal of a subsidiary *(Note 42)*	(35)
At 31 December 2009	161,008
ACCUMULATED IMPAIRMENT LOSS	
At 1 January 2008	–
Impairment loss recognised	161,008
At 31 December 2008, 1 January 2009 and 31 December 2009	161,008
CARRYING VALUES	
At 31 December 2008 and 31 December 2009	–

During the year ended 31 December 2008, the Group acquired several subsidiaries and goodwill of approximately HK$161,008,000 in aggregate arising therefrom was recognised upon acquisition of which details are set out in Note 41.

During the year ended 31 December 2009, the Group acquired Able Entertainment Limited ("Able Entertainment") with a goodwill of approximately HK$35,000. Details are set out in Note 41.

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

The Group tests goodwill annually for impairment if there are indications that goodwill might be impaired. In assessing the need for impairment of goodwill, the Group estimates the recoverable amount of individual CGUs to which goodwill has been allocated by reference to, amongst other things, the market value or recoverable amount of the major assets held by the subsidiaries, such as held for trading investments and an investment property; estimated future dividend yield from interest in an associate held by a subsidiary and the existing operations and future prospects of the subsidiaries. Accordingly, an impairment loss in respect of the full amount of goodwill totaling to approximately HK$161,008,000 is recognised in the consolidated income statement of the Group for the year ended 31 December 2008 (2009: Nil).

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For the year ended 31 December 2009

22. INTERESTS IN ASSOCIATES

	2009 *HK$'000*	2008 *HK$'000*
Cost less accumulated impairment of investment in associates		
– Listed in Hong Kong	**174,635**	192,219
– Unlisted	**2**	–
Share of post-acquisition results and other comprehensive income	**(39,188)**	33,191
	135,449	225,410
Fair value of listed investments	**69,018**	193,944

China Railway

As disclosed in Note 20, following the appointment of certain directors of the Company as directors of China Railway during the year ended 31 December 2008, the directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decision of China Railway. Accordingly, the investment in China Railway is classified as an associate. During the year ended 31 December 2009, China Railway issued shares as consideration shares to the vendor as part of the purchase consideration for the acquisition of a subsidiary. As a result, the Group's interest in China Railway was diluted by 0.7% and resulted in a loss on deemed partial disposal of approximately HK$6,301,000.

As at 31 December 2009, the Group held approximately 14.23% (2008: 14.93%) equity interests in China Railway. The fair value of the shares as at 31 December 2009 was approximately HK$69,018,000 (2008: HK$55,376,000).

ZZNode

During the year ended 31 December 2008, the Group acquired interests in ZZNode, through the acquisition of a subsidiary, Betterment Enterprises Limited ("Betterment"), in which the Group holds 99.49% equity interests. Details are disclosed in Note 41. As at 31 December 2008, the Group held an effective interest of approximately 29.29% equity interests in ZZNode. The fair value of the shares as at 31 December 2008 was approximately HK$66,442,000.

As set out in Note 20, during the year ended 31 December 2009, the Group partially disposed of its interests in ZZNode and resulted in a gain of disposal of approximately HK$88,176,000. Immediately after the disposal, the Group's remaining interests in ZZNode was reclassified to available-for-sale investments.

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22. INTERESTS IN ASSOCIATES (Continued)

China Bio-Med

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

On 12 March 2009, the Group and Vital-Gain Global Limited, an independent third party, entered into an agreement for the disposal of the Group's 21.92% of the entire issued share capital of China Bio-Med as at 12 March 2009, for a consideration of HK$60,000,000. The disposal was completed on 5 June 2009 and resulted in a gain of disposal of approximately HK$9,322,000. Immediately after the disposal, the Group's remaining interests in China Bio-Med of approximately HK$1,802,000 was reclassified to held for trading investments, and was subsequently disposed during the year.

Express Advantage

During the year ended 31 December 2008, the Group had disposed of 750 shares in Express Advantage Limited ("Express Advantage"), a wholly-owned subsidiary of the Company, representing 75% of the equity interests in Express Advantage, upon which Express Advantage became an associate of the Group. The Group had subsequently repurchased the 75% equity interests in Express Advantage and Express Advantage became a wholly-owned subsidiary of the Group again. Details of which are set out in Notes 41 and 42 respectively.

During the year ended 31 December 2009, the Group had disposed of 800 shares in Express Advantage, representing 80% of the equity interests in Express Advantage, upon which Express Advantage became an associate of the Group. Details of which are set out in Note 42.

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22. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2009 and 2008, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proposition of nominal value of issued capital held by the Group 2009	2008	Principal activities
China Railway	Incorporated	Bermuda	Hong Kong	Ordinary shares	**14.23%**	14.93% *(note)*	Provision of telecommunication and computer technology solutions
Express Advantage	Incorporated	British Virgin Islands	Hong Kong	Ordinary shares	**20%**	100%	Investments in trading equity securities
ZZnode	Incorporated	Cayman Islands	Hong Kong	Ordinary shares	**–**	29.29%	Provision of telecommunications and OSS products and solutions and investment property holding
China Bio-Med	Incorporated	Cayman Islands	Hong Kong	Ordinary shares	**–**	22.59%	Business, accounting and corporate development advisory services

Note:

During the year ended 31 December 2008, the interest in China Railway held by the Group was reclassified from available-for-sale investments upon acquisition and a discount on acquisition of approximately HK$72,695,000 arising on the acquisition of China Railway has been included as income in the determination of the Group's share of results of associates as presented in the consolidated income statement.

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22. INTERESTS IN ASSOCIATES (Continued)

For the year ended 31 December 2008, included in cost of investments in associates is goodwill of approximately HK$57,493,000 arising on the acquisitions of China Bio-Med.

As at 31 December 2008, the directors of the Company conducted a review on the carrying value in respect of its interest in China Bio-Med. In conducting their assessment on the recoverable amount of the Group's investment in the shares of China Bio-Med, the directors have taken into account the impact of the disposal on 12 March 2009 and accordingly, an impairment of approximately HK$43,674,000 was recognised and charged to the consolidated income statement.

	HK$'000
ACCUMULATED IMPAIRMENT	
At 1 January 2008	–
Impairment loss recognised	(43,674)
At 31 December 2008 and 1 January 2009	43,674
Disposal of associate	(43,674)
At 31 December 2009	**–**

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

	2009 *HK$'000*	2008 *HK$'000*
Total assets	**1,060,962**	1,426,776
Total liabilities	**(86,748)**	(201,658)
Minority interests	**(17,335)**	(10,240)
Net assets	**956,879**	1,214,878
Group's share of net assets of associates	**135,449**	211,591
Turnover	**8,916**	37,502
Loss for the year	**(3,083)**	(274,308)
Group's share of results of associates for the year	**(1,109)**	(42,752)

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23. RETURN ON ADVANCES AND CHARGE OVER ASSETS GRANTED TO AN ASSOCIATE

As set out in Notes 22 and 42 respectively, during the year ended 31 December 2009, the Group disposed of its 80% equity interests in Express Advantage to an independent third party (the "Acquirer"), upon which Express Advantage became an associate of the Group. As set out in Note 29, the Group had made advances and had pledged certain of its listed securities with a total market value of approximately HK$3,190,000 (2008: Nil) to secure against the margin facilities granted by a financial institution to Express Advantage. As a return for the advances provided and charge over the Group's assets against the margin facilities granted, the Group and the Acquirer had entered into an agreement, pursuant to which the Group shall be entitled to a 50% share of the trading profits from that securities account until the full settlement of the advances and removal of charge over the Group's assets.

For the year ended 31 December 2009, the Group's listed securities have been pledged to secure the margin facilities granted by a financial institution to an associate.

24. INTEREST IN A JOINTLY CONTROLLED ENTITY

During the year ended 31 December 2007, the Group established a jointly controlled entity, Shanghai PME-XINHUA Polishing Materials Systems ("Shanghai PME-XINHUA") with another venturer. As at 31 December 2009 and 2008, the Group had interest in Shanghai PME-XINHUA as follows:

Name of entity	Nominal value of registered capital	Country of registration and operation	Class of shares held	Proportion of nominal value of registered capital held by the Group		Group's percentage of voting power and profit sharing		Principal activity
				2009	2008	**2009**	2008	
Shanghai PME-XINHUA	RMB10,000,000	PRC	Registered capital	**60%**	60%	**60%**	60%	Manufacturing and trading of polishing materials

	2009	2008
	HK$'000	*HK$'000*
Cost of unlisted investment in a jointly controlled entity	**5,983**	5,983
Share of post-acquisition results	**1,374**	18
	7,357	6,001

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24. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

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

	2009 HK$'000	2008 HK$'000
Current assets	14,666	11,640
Non-current assets	1,804	2,055
Current liabilities	(2,841)	(2,318)
Income	22,540	20,482
Expenses	(20,280)	(20,196)

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

25. INVENTORIES

	2009 HK$'000	2008 HK$'000
Raw materials	–	5,414
Work in progress	–	87
Finished goods	9,456	21,516
	9,456	27,017

During the year ended 31 December 2009, a reversal of allowance on inventories of approximately HK$618,000 (2008: Nil) has been recognised and included in cost of sales in the current year as the corresponding inventories were either sold or use.

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26. DEBTORS, BILLS RECEIVABLE, DEPOSITS AND PREPAYMENTS

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

The following is an aged analysis of trade receivables net of impairment loss presented based on the invoice date at the reporting date.

	2009 HK$'000	2008 HK$'000
Within 30 days	22,260	15,118
31 to 60 days	16,892	13,778
61 to 90 days	7,542	6,489
Over 90 days	6,074	27,612
	52,768	62,997
Bills receivable	375	–
Other debtors, deposits and prepayments *(Note)*	109,668	95,021
	162,811	158,018

Bills receivable are aged within 90 days from the invoice date.

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

The Group's neither past due nor impaired trade receivables with aggregated carrying amount of approximately HK$43,982,000 (2008: HK$40,879,000) mainly represent sales made to creditworthy customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Included in the Group's receivable balance are debtors with aggregate carrying amount of approximately HK$8,786,000 (2008: HK$22,118,000) which are past due at the reporting date but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these balances. The average age of these receivable is 85 days (2008: 95 days).

Note:

Included in other debtors, deposits and prepayments as at 31 December 2009 are deposits of approximately HK$20,000,000 paid for the acquisition of a five-year zero coupon rate convertible bond (the "Hembly Bond") with a principal amount of HK$12,000,000 issued by Hembly International Holdings Limited ("Hembly"), a company listed on the Main Board of the Stock Exchange, from Bright Good Limited, an independent third party. The Hembly Bond can be converted, in an amount not less than HK$1,000,000, into new ordinary shares of Hembly at any time within a period of five years following the date of issue at a conversion price of HK$1.20 per share. The acquisition was completed on 4 January 2010.

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For the year ended 31 December 2009

26. DEBTORS, BILLS RECEIVABLE, DEPOSITS AND PREPAYMENTS (Continued)

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

For the year ended 31 December 2008, a refundable deposit of HK$32,000,000 had been paid upon execution of the MOU. On 30 January 2008, Smart Genius further entered into a heads of agreement ("Heads of Agreement") with Crown Sunny. Under the Heads of Agreement, Crown Sunny had given Smart Genius an exclusive right to 30 April 2008 to continue the due diligence review and during such period, Crown Sunny shall not engage in discussions or negotiations with other parties with respect to the acquisition. In consideration for the granting of such exclusive right, a further refundable deposit of HK$48,000,000 had been paid to Crown Sunny during the year ended 31 December 2008. Relevant details are set out in the Company's announcements dated 15 January 2008 and 30 January 2008 respectively.

On 19 May 2009, the Group entered into a formal agreement with Crown Sunny and Mr. Wu Jia Neng, the guarantor, pursuant to which Crown Sunny would sell and the Group would acquire 49% equity interests in Giant Billion at a consideration of HK$200,000,000.

The consideration shall be satisfied in the following manner:

(1) HK$80,000,000 paid by the Group during the year ended 31 December 2008 and which was included in other debtors, deposits and prepayments;

(2) HK$60,000,000 shall be paid by procuring the issuance of convertible bonds by the Company; and

(3) HK$60,000,000 shall be paid through the issuance of promissory notes.

The exclusive period has subsequently been extended to 31 January 2010. Details have been set out in the Company's announcements dated 5 January 2010. The transaction was completed on 1 February 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

26. DEBTORS, BILLS RECEIVABLE, DEPOSITS AND PREPAYMENTS (Continued)

Aging of trade debtors which are past due but not impaired

	2009 HK$'000	2008 HK$'000
Within 30 days	2,951	747
31 to 60 days	839	2,359
61 to 90 days	55	1,641
Over 90 days	4,941	17,371
	8,786	22,118

Movements in the accumulated impairment losses

	2009 HK$'000	2008 HK$'000
Balance at beginning of the year	14,945	6,488
Reversal on impairment loss	(240)	–
Impairment loss recognised in consolidated income statement	5,153	8,457
Balance at end of the year	19,858	14,945

Included in the accumulated impairment losses are individually impaired receivables with an aggregate balance of HK$14,180,000 (2008: HK$9,267,000) which have either been in disputes with the Group or are in financial difficulties. The Group does not hold any collateral over these receivables.

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

	2009 HK$'000	2008 HK$'000
Convertible bonds designated as financial assets at fair value through profit or loss		
Asia Energy Bond *(Note (a))*	–	7,047
Betterment Bond *(Note (b))*	–	–
China Fortune CB1 *(Note (c))*	12,000	–
China Fortune CB2 *(Note (c))*	80,000	–
China Agrotech Bond *(Note (d))*	9,319	–
	101,319	7,047

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27. CONVERTIBLE BONDS DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Note (a): During the year ended 31 December 2008, the Group acquired a two-year 2% coupon rate convertible bond ("Asia Energy CB1") with a principal amount of HK$5,000,000 issued by Asia Energy Logistics Group Limited ("Asia Energy") (formerly known as China Sciences Conservational Power Limited) from a subsidiary of Heng Xin China Holdings Limited ("Heng Xin"), of which Ms. Yeung Sau Han, Agnes, a director of the Company, is also one of the directors, at a consideration of approximately HK$6,332,000. The Group has designated the convertible bond as fair value through profit or loss.

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

During the year ended 31 December 2009, the Group acquired a two-year 2 % coupon rate convertible bond ("Asia Energy CB2") with a principal amount of HK$10,000,000 issued by Asia Energy from a subsidiary of Sunny Global Holdings Limited ("Sunny Global") at a consideration of approximately HK$16,000.000. The Group has designated the convertible bond as fair value through profit or loss.

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

During the year ended 31 December 2009, the investments in the Asia Energy CB1 and CB2 had been disposed of pursuant to the disposal of subsidiaries, Maxcash Investment Limited and its subsidiaries. Details are set out in Note 42. A fair value gain of approximately HK$37,125,000 was recognised at disposal date.

Note (b): During the year ended 31 December 2008, the Group subscribed from Betterment a convertible bond (the "Betterment Bond") with a principal amount of HK$64,000,000. The Group has designated the Betterment Bond as financial assets at fair value through profit or loss. The Group subsequently exercised the conversion right under the Betterment Bond and converted the whole of the Betterment Bond into equity shares in Betterment. Betterment has since then become a subsidiary of the Group. More details are set out in Note 41.

At the time immediately before the conversion, the Betterment Bond has been restated to its fair value of HK$217,795,000. A fair value gain of approximately HK$153,750,000 was recognised and credited to the consolidated income statement for the year ended 31 December 2008.

Notes to the Consolidated Financial Statements

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27. CONVERTIBLE BONDS DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Note (c): During the year ended 31 December 2009, the Group subscribed two three-year zero coupon rate convertible bonds (the "China Fortune CB1"), with a total principal amount of HK$24,000,000 issued by China Fortune, at a consideration of approximately HK$31,529,000. The convertible bond can be converted, in an amount of not less than HK$100,000, into new ordinary shares of China Fortune at any time within a period of three years following the date of issue at a conversion price of HK$0.1 per share.

During the year ended 31 December 2009, the Group partially exercised the zero coupon convertible bonds of China Fortune with principal amount of HK$21,000,000 at a conversion price of HK$0.1 per share. The converted shares were classified as available-for-sale investments and accounted for at fair value at the end of the reporting period. The Group has designated the remaining China Fortune CB1 as financial assets at fair value through profit or loss.

During the year ended 31 December 2009, the Group had further acquired another three-year zero coupon rate convertible bonds (the "China Fortune CB2") with a principal amount of HK$32,000,000 issued by China Fortune. The convertible bond can be converted, in an amount of not less than HK$500,000, into new ordinary shares of China Fortune at any time within a period of three years following the date of issue at a conversion price of HK$0.16 per share. The Group shall not convert the bond if, upon such issue, the Group and the parties acting in concert with it, shall be interested in 30% or more of the then enlarged issued share capital of China Fortune at the date of the relevant conversion. The Group has designated the China Fortune CB2 as financial assets at fair value through profit or loss.

A total fair value gain of approximately HK$126,126,000 was recognised in the consolidated income statement for the year ended 31 December 2009 (2008: Nil).

Note (d): During the year ended 31 December 2009, the Group acquired a two-year 3% coupon rate convertible bond (the "China Agrotech Bond") with a total principal amount of HK$7,200,000 issued by China Agrotech Holdings Limited ("China Agrotech"), a company listed on the Main Board of the Stock Exchange. The convertible bond can be converted, in an amount of not less than HK$90,000, into new ordinary shares of China Agrotech at any time within a period of two years following the date of issue at a conversion price of HK$0.90 per share. The Group has designated the China Agrotech Bond as financial assets at fair value through profit or loss.

A fair value gain of approximately HK$2,119,000 was recognised in the consolidated income statement for the year ended 31 December 2009 (2008: Nil).

For the year ended 31 December 2009 and 2008, fair value of all convertible bonds had been determined in accordance with a valuation report issued by Grant Shermen Appraisal Limited, an independent valuer not connected to the Group, using the Binomial Option Pricing Model.

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27. CONVERTIBLE BONDS DESIGNATED AS FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Binomial option pricing model is used for valuation for the convertible bonds designated at financial assets at fair value through profit or loss. The inputs into the mode of each convertible bond as at 31 December 2009 and 2008 were as follows:

	2009	2008
Asia Energy Bond		
Stock price	**N/A**	HK$0.08
Conversion price	**N/A**	HK$0.05
Volatility	**N/A**	66.44%
Dividend yield	**N/A**	0%
Option life *(years)*	**N/A**	1.75
Risk free rate	**N/A**	0.478%
China Fortune CB1		
Stock price	**HK$0.4**	N/A
Conversion price	**HK$0.10**	N/A
Volatility	**42.12%**	N/A
Dividend yield	**0.00%**	N/A
Option life *(years)*	**2.13**	N/A
Risk free rate	**0.692%**	N/A
China Fortune CB2		
Stock price	**HK$0.4**	N/A
Conversion price	**HK$0.16**	N/A
Volatility	**42.12%**	N/A
Dividend yield	**0.00%**	N/A
Option life *(years)*	**2.13**	N/A
Risk free rate	**0.692%**	N/A
China Agrotech Bond		
Stock price	**HK$0.83**	N/A
Conversion price	**HK$0.90**	N/A
Volatility	**77.1%**	N/A
Dividend yield	**0%**	N/A
Option life *(years)*	**1.43**	N/A
Risk free rate	**0.4%**	N/A

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28. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The balance is unsecured, interest-free, aged within 30 to 60 days and is not past due as at 31 December 2009 and 2008.

The amount had been reclassified to assets held for sale as at 31 December 2009.

29. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, non-interest bearing and repayable on demand except for an amount of approximately HK$22,672,000 which bears interest at 8% per annum and repayable on demand.

30. LOAN RECEIVABLES

The loans were made to independent third parties and were repayable within one year. Interests were charged at 10% to 12% or prime rate plus 3 or 5% (2008: 7.5% to 12% or prime rate plus 3% or 5%) on the outstanding balances of the loans.

At 31 December 2009, loan receivables with an aggregate carrying amount of HK$42,000,000 (2008: Nil) were secured by listed equity shares with a market value of approximately HK$38,860,000 (2008: Nil), of which HK$12,000,000 (2008: HK$45,070,000) were further secured by personal guarantees.

Included in loan receivables is unsecured loan with principal amount of approximately HK$26,068,000. The loan was originally due for repayment in July 2009. Despite the repeated demands made by the Group, the borrower failed to make repayment.

At 31 December 2009, the directors of the Company are of the opinion that the recoverability of the outstanding balance is uncertain due to default in payment. Accordingly, impairment loss of HK$26,068,000 with interest receivable of approximately HK$3,825,000 had been recognised during the year.

31. HELD FOR TRADING INVESTMENTS

	2009	2008
	HK$'000	*HK$'000*
Listed securities:		
Equity securities listed in Hong Kong, at fair value	**115,159**	80,112

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

32. DEPOSITS PLACED WITH FINANCIAL INSTITUTIONS

The deposits placed with financial institutions are for trading in securities. The deposits carry interest at market rates which range from 0.004% to 0.05% (2008: 0.01% to 0.75%) per annum.

33. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.04% to 0.2% (2008: 0.05% to 4.8%) per annum.

34. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 25 November 2009, the wholly owned subsidiaries of the Group, Best Chief Ventures Limited ("Best Chief"), Teamcom Group Limited ("Teamcom") and PME International Company Limited ("PMEI"), (collectively the "Vendors") and Billionlink Holdings Limited (the "Purchaser"), entered into an agreement (the "Agreement") pursuant to which the Vendors conditionally agreed to sell and the Purchaser conditionally agreed to purchase the shares of Magic Horizon Investment Limited ("Magic Horizon") and its loans at an aggregate consideration of HK$66,000,010.

The shares represent 100% equity interest in Magic Horizon which, in turn, possesses 100% equity interest in Dongguan PME Polishing Materials & Equipments Company Limited through PME International Investment (South China) Limited (collectively referred to as the "Disposal Group"). As at the date of the Agreement, Best Chief is the sole legal and beneficial owner of Magic Horizon.

The disposal was effected in order to realise its investment in Disposal Group and to release its resources for development and investment in other potential business opportunities. The Group will cease to own the manufacturing facilities and will maintain its manufacturing business by outsourcing the manufacturing process to the processor and other sub-contractors.

On 25 November 2009, Best Chief entered into a processing agreement (the "Master Processing Agreement") with the Purchaser pursuant to which Best Chief and/or its subsidiaries and nominees conditionally agreed to supply raw materials each year to the Purchaser and/or its subsidiaries or nominees for further processing, for a term of three years ending 31 December 2012.

On 9 April 2010, the Vendors and the Purchaser entered into a supplementary agreement to extend the execution of the Agreement to 30 July 2010. Details of the above are set out in the Company's announcements dated 9 December 2009 and 12 April 2010.

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34. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE (Continued)

On 28 April 2010, the Vendors entered into a second supplemental agreement with the Purchaser to amend certain provisions relating to the consideration under the Agreement.

In accordance with HKFRS 5 "Non-Current Assets Held For Sale and Discontinued Operations" issued by the HKICPA, the related assets, liabilities and reserves of the Disposal Group were classified as assets classified as held for sale, liabilities directly associated with assets classified as held for sale and amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale, respectively. The following amounts represent the assets and liabilities of the disposal group as at 31 December 2009, which are presented separately in the consolidated statement of financial position at 31 December 2009.

		HK$'000
(A)	Assets	
	Property, plant and equipment	55,886
	Prepaid lease payments	11,020
	Inventories	7,592
	Debtors, bills receivables, deposits and prepayments	4,770
	Amount due from a jointly controlled entity	2,274
	Bank balances and cash	1,479
	Deferred taxation	406
	Total assets reclassified as held for sale	83,427
(B)	Liabilities	
	Creditors and accruals	2,969
	Bank and other loans	5,454
	Total liabilities directly associated with assets classified as held for sale	8,423
(C)	Cumulative income or expense recognised directly in equity	
	Translation reserve *(Note)*	8,374

Note:

In determining the impairment losses on the Disposal Group, the cumulative income recognised in the Group's translation reserve of approximately HK$8,374,000 as at 31 December 2009 has not been included as part of the carrying value of the Disposal Group, which will be realised as a gain in the Group's consolidated statement of comprehensive income upon completion of the disposal expected to take place in 2010.

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For the year ended 31 December 2009

35. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors presented based on the invoice date at the end of the reporting period of approximately HK$6,620,000 (2008: HK$7,260,000) which are included in the creditors and accruals in the consolidated statement of financial position is as follows:

	2009	2008
	HK$'000	*HK$'000*
Within 30 days	**4,561**	1,271
31 to 60 days	**982**	972
61 to 90 days	**750**	1,483
Over 90 days	**327**	3,534
	6,620	7,260
Other creditors and accruals	**5,650**	65,501
	12,270	72,761

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

As at 31 December 2008, included in other creditors and accruals are approximately HK$34,049,000 consideration payable in relation to the acquisition of China Bio-Med during the year (Note 22). During the year on 6 July 2009, the Group had entered into a deed of settlement (the "Deed") with the vendor on the variation of terms of repayment. Pursuant to the Deed, the Company shall settle the balance by cash of HK$12,000,000 and the remaining balance of approximately HK$22,049,000 by way of 44,097,600 shares in the Company valued at HK$0.50 per share. The closing price of the Company's shares on which the share issue made was HK$0.43 per share. The issue of shares in lieu of cash settlement had resulted in a discount on issue of shares for settlement of a liability of approximately HK$3,087,000, which had been recognised as other income in the consolidated income statement. Relevant details are set out in the Company's announcement dated 6 July 2009 and in Note 38.

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36. OBLIGATION UNDER A FINANCE LEASE

The lease term of the finance lease was three years. Interest rate is fixed at 9.24% at the contract date. No arrangements have been entered into for contingent rental payments. The finance lease had been fully repaid during the year ended 31 December 2009.

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	–	90	–	74
In more than one year, but not more than two years	–	90	–	81
In more than two years, but not more than five years	–	53	–	51
	–	233	–	206
Less: future finance charges	–	(27)	**N/A**	N/A
Present value of lease obligation	–	206		
Less: amount due for settlement within twelve months (shown under current liabilities)			–	(74)
Amount due for settlements after twelve months			–	132

For the year ended 31 December 2008, the Group's obligation under a finance lease is secured by the lessor's charge over the leased assets. The charge over the leased assets had been discharged upon full settlement of the finance lease during the year ended 31 December 2009.

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37. BANK AND OTHER LOANS

	2009 HK$'000	2008 HK$'000
Bank loans:		
Bank overdraft	94	4
Trust receipt loans	–	2,378
Other bank loans	5,555	11,829
Margin loans with financial institutions other than banks	5,866	–
	11,515	14,211
Analysed as:		
Secured	5,866	5,454
Unsecured	5,649	8,757
	11,515	14,211

The exposure of the Group's loans is as follows:

	2009 HK$'000	2008 HK$'000
Fixed-rate loans	5,960	5,454
Variable-rate loans	5,555	8,757
	11,515	14,211

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

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

	2009	2008
Effective interest rate		
Fixed-rate loans	5.25% to 9.79%	6.57% to 8.22%
Variable-rate loans	LIBOR + 3%	2.08% to 7.34%

For the year ended 31 December 2009 and 2008, the secured bank loans are secured by the Group's property, plant and equipment (Note 17) and prepaid lease payments (Note 19).

For the year ended 31 December 2009, the margin loans are secured by the listed securities held under the margin accounts, with a total market value of approximately HK$104,882,000.

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38. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Share capital	
	2009	2008	**2009**	2008
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At beginning and end of year	**10,000,000**	10,000,000	**100,000**	100,000
Issued and fully paid:				
At beginning of year	**1,758,600**	1,598,600	**17,586**	15,986
Issue of shares upon placing *(Note (c))*	**–**	160,000	**–**	1,600
Issue of shares upon exercise of share options *(Note (a))*	**2,500**	–	**25**	–
Issue of shares for settlement of a liability *(Note (b))*	**44,098**	–	**441**	–
At end of year	**1,805,198**	1,758,600	**18,052**	17,586

Note (a): On 19 May 2009, 2,500,000 share options were exercised by an employee of the Company at a subscription price of HK$0.075 per share, for a total consideration of HK$187,500, resulting in the issue of 2,500,000 new ordinary shares of HK$0.01 each. The new shares rank pari passu with the existing shares in all respects.

Note (b): As set out in Note 36, on 6 July 2009, the Company entered into a deed to settle the remaining consideration payable in relation to the acquisition of China Bio-Med outstanding at 31 December 2008 by way of issuing 44,097,600 shares in the Company at HK$0.43 per share at the date of issue. The new shares rank pari passu with the existing shares in all respects.

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

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39. DEFERRED TAXATION

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

	Accelerated tax depreciation	Revaluation of properties	Revaluation of available–for–sale investments	Tax losses recognised	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	2,602	2,178	–	(1,504)	(73)	3,203
Effect of change in tax rate	(149)	(124)	–	86	4	(183)
Attributable to disposal of subsidiaries	–	(375)	–	–	–	(375)
(Credit) charge to consolidated income statement for the year	(223)	–	–	394	10	181
Credit to consolidated statement of comprehensive income for the year	–	(374)	–	–	–	(374)
At 31 December 2008	2,230	1,305	–	(1,024)	(59)	2,452
(Credit) charge to consolidated income statement for the year	(1,218)	–	–	(406)	17	(1,607)
(Credit) charge to consolidated statement of comprehensive income for the year	–	(1,305)	3,758	–	–	2,453
At 31 December 2009	**1,012**	**–**	**3,758**	**(1,430)**	**(42)**	**3,298**

At the end of the reporting period, the Group had unused tax losses of approximately HK$66,538,000 (2008: HK$25,272,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$8,667,000 (2008: HK$6,206,000) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of approximately HK$57,871,000 (2008: HK$19,066,000) due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

For the purpose of the financial reporting, deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for reporting purpose:

	2009	2008
	HK$'000	*HK$'000*
Deferred tax liabilities	**3,704**	2,452
Deferred tax assets associated with assets classified as held for sale *(Note 34)*	**(406)**	–
	3,298	2,452

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40. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

On 19 May 2009, 2,500,000 share options were exercised by an employee of the Company at a subscription price of HK$0.075 per share.

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40. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options granted during the year ended 31 December 2009:

Name of participant	Date of grant	Exercisable period	Exercisable price HK$	Number of share options Outstanding at 1/1/2009	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31/12/2009
Directors								
Chan Shui Sheung, Ivy	22.10.2007	22.10.2007 to 22.10.2010	1.198	15,000,000	–	–	–	15,000,000
Yeung Sau Han, Agnes	22.10.2007	22.10.2007 to 22.10.2010	1.198	15,000,000	–	–	–	15,000,000
Cheng Kwok Woo	31.10.2008	31.10.2008 to 31.10.2011	0.075	6,500,000	–	–	–	6,500,000
Cheng Kwong Cheong	31.10.2008	31.10.2008 to 31.10.2011	0.075	6,500,000	–	–	–	6,500,000
Sub-total				43,000,000	–	–	–	43,000,000
Employees	31.10.2008	31.10.2008 to 31.10.2011	0.075	5,500,000	–	(2,500,000)	–	3,000,000
				48,500,000	–	(2,500,000)	–	46,000,000

In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$0.16.

The number of share options exercisable at the year ended 31 December 2009 is 46,000,000 shares (2008: 48,500,000 shares).

The weighted average exercise price of share options for the year ended 31 December 2009 is HK$0.807 (2008: HK$0.770).

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40. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

The fair value of the options granted on 8 May 2008 determined at the date of grant using the Black-Scholes-Merton option pricing model was HK$0.1188. The total fair value of the options granted was approximately HK$2,079,000 and was recognised during the year ended 31 December 2008.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

40. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

For the year ended 31 December 2008, expected volatility was determined based on 1.5 year annualised daily historical price volatilities of comparable companies sourced from the Bloomberg. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

41. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2009

On 30 April 2009, the Group acquired 100% of the issued share capital of Able Entertainment at a consideration of approximately HK$35,000. The fair value of net assets of Able Entertainment at the acquisition date was HK$1. The acquisition had been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$35,000.

The acquisition had no contribution of revenue, profit or cash flow to the Group from the date of completion to 31 December 2009. If the acquisition was completed on 1 January 2009, the acquisition would have no contribution of revenue, profit or cash flow to the Group.

Goodwill arose in the acquisition of Able Entertainment because the cost of the combination included amounts related to the benefit of expected synergies of Able Entertainment.

For the year ended 31 December 2008

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

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

On 31 December 2008, the Group acquired 750 shares in Express Advantage, and then associate of the Group in which the Group held a 25% equity interest. Express Advantage used to be a wholly-owned subsidiary of the Group but on 31 May 2008, the Group disposed of 75% equity interests in Express Advantage to an independent third party (Note 42). On 31 December 2008, the Group repurchased the 75% equity interests in Express Advantage for a consideration of USD750 (equivalent to approximately HK$6,000), upon which Express Advantage became a wholly-owned subsidiary of the Group again. The acquisition had been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$12,804,000.

The fair values of the identifiable assets and liabilities of the respective subsidiaries acquired during the year ended 2009 and 2008 have no significant differences from their respective carrying amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

41. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2008 (Continued)

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

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

The goodwill on acquisition of subsidiaries was attributable to the expected appreciation in the value of the listed securities held by Betterment and Express Advantage, and of the expected appreciation in the value of the investment property held by Host Luck.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

41. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2008 (Continued)

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

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

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

42. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2009

On 12 May 2009, the Group disposed of 80% equity interests in its wholly owned subsidiary, Express Advantage to Best Leader Investment Limited, an independent third party, at a cash consideration of USD800 (equivalent to approximately HK$6,000). The disposal had resulted in no gain or loss. Upon completion, the Group held a 20% equity interest in Express Advantage and accounted for such equity holding as interest in associates.

On 25 August 2009, the Group disposed of 100% equity interests in a wholly owned subsidiary, Maxcash Investment Limited and its wholly owned subsidiaries Gold Max Limited and Able Entertainment Limited (collectively referred to as "Maxcash Group") to Winning Standard Limited ("Winning Standard"), an independent third party, at a cash consideration of HK$23,500,000. At the disposal date, Maxcash Group held convertible bonds issued by Hembly with an aggregate principal of HK$15,000,000.

Pursuant to the sale and purchase agreement, the consideration should be adjusted by a profit share resulting from the conversion of the convertible bond in Hembly, and shall be calculated in accordance with the formula stipulated in the agreement. Subsequent to the disposal of Maxcash Group, Winning Standard converted the convertible bond resulting in the Group's share of profit of approximately HK$5,000,000. The consideration was adjusted to HK$28,500,000, resulting in a loss on disposal of approximately HK$31,787,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

42. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2009 (Continued)

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

	Maxcash Group *HK$'000*	Express Advantage *HK$'000*	Total *HK$'000*
Net assets (liabilities) disposed:			
Convertible bonds designated at fair value through profit or loss	60,252	–	60,252
Other debtors	–	8	8
	60,252	8	60,260
Attributable goodwill	35	–	35
Transfer to interests in associates	–	(2)	(2)
Loss on disposal	(31,787)	–	(31,787)
Total consideration	28,500	6	28,506
Satisfied by:			
Cash	28,500	6	28,506

The subsidiaries disposed of during the year did not contribute to the Group's revenue, contributed approximately HK$43,405,000 to the Group's profit, contributed approximately HK$37,125,000 to the Group's net operating cash flows and had no significant impact on the Group's investing and operating cash flows.

For the year ended 31 December 2008

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

42. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2008 (Continued)

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

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

The subsidiaries disposed of during the year contributed approximately HK$4,844,000 to the Group's revenue, contributed approximately HK$7,395,000 to the Group's net operating cash flows and had no significant impact on the Group's investing and operating cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

43. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately HK$337,000 (2008: HK$527,000).

At the end of the reporting period, the rental yield for the year ended 31 December 2009 is 8% (2008: 16%).

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	2009	2008
	HK$'000	*HK$'000*
Within one year	**1,788**	4,140
In the second to fifth year inclusive	**–**	2,099
	1,788	6,239

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

44. CAPITAL COMMITMENTS

	2009	2008
	HK$'000	*HK$'000*
Contracted for but not provided		
Acquisition of an associate	**120,000**	–

45. EMPLOYEE RETIREMENT BENEFITS

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

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

During the year, the Group made retirement benefits scheme contributions of approximately HK$692,000 (2008: HK$703,000).

Notes to the Consolidated Financial Statements

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46. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2009, the Group sold polishing materials to Shanghai PME-XINHUA, a jointly controlled entity of the Group, amounting to HK$1,613,000 (2008: HK$2,529,000).

During the year ended 31 December 2009, the Group had interest income receivable of approximately HK$3,061,000 (2008: Nil) on the advance (Note 29) and return of approximately HK$18,898,000 (2008: Nil) on funds and charge over assets (Note 23) granted to Express Advantage respectively.

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

The remuneration of directors and key management personnel during the year are set out in Note 11. The remuneration of directors and key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trend.

47. MAJOR NON-CASH TRANSACTIONS

As set out in Note 23, during the year ended 31 December 2009, the Group had received a return on funds and charge over assets granted to an associate amounting to approximately HK$18,898,000 which had been settled through a current account with the associate.

As set out in Note 46, the Group has interest receivable of approximately HK$3,061,000 from an associate and was included in the amount due from an associate (Note 28) as at 31 December 2009.

As set out in Note 35 and 38 respectively, during the year ended 31 December 2009, the Group had settled the HK$34,049,000 consideration payable in relation to the acquisition of China Bio-Med by way of HK$12,000,000 cash settlement and the remaining balance of approximately HK$22,049,000 by way of issuing 44,097,600 shares in the Company valued at HK$0.50 per share with a closing price of HK$0.43 per share at the shares issue date.

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

48. EVENTS AFTER THE REPORTING PERIOD

(1) On 7 January 2010, the Group entered into a placing agreement ("Placing Agreement") to issue a zero coupon convertible bond (the "Convertible Bonds") up to a principal amount of HK$264,000,000 at an initial conversion price of HK$0.03 per share. The bondholder may convert at any time from the 90th day after the date of initial issue of the Convertible Bonds and ending on the date that falls on the fifth day immediately before the maturity date into new shares of the Company in multiples of HK$1,200,000. The Convertible Bonds was unsecured, did not bear any interest with a maturity of three years from the date of issue.

The Convertible Bonds attached with an option for the subscribers to subscribe for convertible bonds up to a maximum principal amount of HK$264,000,000 convertible into a maximum of 8,800,000,000 shares.

Notes to the Consolidated Financial Statements

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48. EVENTS AFTER THE REPORTING PERIOD (Continued)

On 11 January 2010, the Group proposed that the authorised share capital of the Company be increased from HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each to HK$150,000,000 divided into 15,000,000,000 shares of HK$0.01 each by creation of an additional HK$50,000,000 divided into 5,000,000,000 shares of HK$0.01 each.

On 7 April 2010, the Company entered into a supplemental placing agreement to amend the Placing Agreement in respect of the placing period from 90 days to 140 days after the execution of the Placing Agreement and certain terms of the Convertible Bonds.

On 20 April 2010, the Company entered into a second supplemental placing agreement to amend the terms on redemption of the Convertible Bonds.

The placing was not yet completed at the report date. Details of the above are set out in the Company's announcements dated 11 January 2010, 7 April 2010 and 21 April 2010 and circular dated on 26 April 2010.

(2) As announced by the Company on 5 January 2010, the long stop date for the fulfilment of the conditions precedent for the acquisition of Giant Billion was extended to 31 January 2010. Details have been set out in the Company's announcement dated 5 January 2010.

On 1 February 2010, the Company entered into an instrument for the issuance of convertible bonds with principal amount of HK$60,000,000 to Crown Sunny as partial settlement of the consideration for the acquisition of Giant Billion. The transaction was completed on 1 February 2010. Details of the acquisition are set out in Note 26.

(3) As set out in Note 26, the Group had paid a deposit of HK$20,000,000 for the acquisition of the Hembly Bond which had been included in other debtors, deposits and prepayment as at 31 December 2009. The acquisition was completed on 4 January 2010.

(4) On 18 January 2010, Platinum Expert Limited ("Platinum Expert"), a wholly-owned subsidiary of the Company, and Excel Business Enterprises Limited ("Excel Business"), an independent third party, entered into a strategic cooperation memorandum (the "Memorandum") pursuant to which both parties intended to become strategic partners to explore the possibility of setting up a joint venture company (the "JV Company") with paid up capital of not less than HK$500,000,000 to invest in a wholly-owned subsidiary of Excel Business (the "Holding Company").

In the Memorandum dated 18 January 2010, the Holding Company proposed to invest in a company in Shanxi in the PRC (the "Coal Company"). The Coal Company proposed to participate in the restructuring of approximately 30 coal mines, coal and nonferrous metal mineral resources companies. Upon signing of the Memorandum, Platinum Expert shall be granted an exclusive right for 180 days to conduct due diligence review and during such period, Excel Business shall not negotiate or enter into any contract or agreement with any third party in relation to its equity interests in the Holding Company or the transactions contemplated under the Memorandum. In consideration for the granting of such exclusive right, a refundable deposit of HK$20,000,000 shall be paid by the Group to Excel Business.

Notes to the Consolidated Financial Statements

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48. EVENTS AFTER THE REPORTING PERIOD (Continued)

On 1 February 2010, Platinum Expert and Excel Business entered into a supplemental memorandum (the "Supplemental Memorandum") pursuant to which Platinum Expert will subscribe for 51% of the entire share capital of the JV Company at HK$300,000,000 in cash while Excel Business will subscribe for 49% of the entire share capital of the JV Company through injection of the equity interest (the "Interest") of the Holding Company into the JV Company. Excel Business undertakes that the Interest shall be subject to review by professional accountant or valuer designated by Platinum Expert and the value of which will not be less than HK$2,000,000,000 while Platinum Expert undertakes that HK$300,000,000 cash resources earmarked for the subscription shall be available before the execution of the formal agreement.

Details of the above are set out in the Company's announcements dated 18 January 2010 and 1 February 2010.

(5) On 9 April 2010, the Vendors entered into a supplemental agreement with the Purchaser to extend the execution of the Agreement to 30 July 2010. Details of the above are set out in the Company's announcements dated 12 April 2010.

On 28 April 2010, the Vendors entered into a second supplemental agreement with the Purchaser to amend certain provisions relating to the consideration under the Agreement.

(6) On 28 April 2010, 3,000,000 new shares were issued upon exercise of share options by an employee of the Company at a subscription price of HK$0.075 per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *(note a)*	Proportion of nominal value of issued capital/ registered capital held by the Company 2009	2008	Principal activities
Indirectly held by the Company					
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK$300,000 *(note b)* Ordinary shares HK$1,000,000	**100%**	100%	Trading of polishing materials and equipment
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(note d)* Ordinary shares HK$100,000	**100%**	100%	Investment holding and trading of polishing materials and equipment
Shun Tien (H.K.) Mechanical Co. Limited	Hong Kong	Ordinary shares HK$60,000	**100%**	100%	Trading of polishing equipment
Dongguan PME Polishing Materials & Equipments Co., Ltd. *(note c)*	PRC	Registered capital HK$40,000,000	**100%**	100%	Manufacturing and trading of polishing materials
Sunbright Asia Limited	BVI	Ordinary shares US$1,000	**100%**	100%	Investment holding
One Express Group Limited	BVI	Ordinary shares US$1,000	**100%**	100%	Investment holding
Treasure Star Trading Limited	Hong Kong	Ordinary share HK$1	**100%**	100%	Investment
Top Good Holdings Limited	Hong Kong	Ordinary share HK$1	**100%**	100%	Investment
Betterment Enterprises Limited	BVI	Ordinary shares US$10,000	**99.49%**	99.49%	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(a) Except for Dongguan PME Polishing Materials & Equipments Co., Ltd. which operates in the PRC, all other principal subsidiaries operate principally in Hong Kong.

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

(c) Established as a wholly foreign owned enterprises.

(d) The 5% non-voting deferred shares of HK$10 each are not held by the Group and practically carrying no right to dividend or to receive notice of or to attend or vote at any annual general meeting of the companies.

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

None of the subsidiaries had any debt securities subsisting at 31 December 2009 or at any time during the year.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	191,964	235,226	258,884	211,256	**176,709**
Cost of sales	(151,113)	(191,859)	(222,819)	(200,003)	**(162,370)**
Gross profit	40,851	43,367	36,065	11,253	**14,339**
Other income, gain and loss	4,037	2,597	5,522	8,120	**13,158**
Selling and distribution expenses	(12,879)	(12,367)	(11,603)	(10,676)	**(12,192)**
Administrative expenses	(25,242)	(25,902)	(56,913)	(71,088)	**(64,368)**
Loss on revaluation of buildings	895	320	–	–	**(20,107)**
Increase (decrease) in fair value of investment property	–	–	–	(694)	**900**
Gain (loss) on disposal of subsidiaries	–	–	(186)	5,815	**(31,787)**
Gain on disposal of held for trading investments	–	–	–	24,907	**26,988**
Change in fair value of convertible bond designated as financial assets at fair value through profit or loss	–	–	–	154,465	**165,370**
Loss on deemed partial disposal of an associate	–	–	–	–	**(6,301)**
Gain on disposal of associates	–	–	–	–	**97,498**
Impairment loss recognised in respect of available-for-sale investments	–	–	–	(199,500)	**–**
Impairment loss recognised in respect of acquisition of an associate	–	–	–	(43,674)	**–**
Impairment loss recognised in respect of goodwill on acquisition of subsidiaries	–	–	–	(161,008)	**–**
Impairment loss recognised in respect of loan receivables and interest receivables	–	–	–	–	**(29,893)**
Increase (decrease) in fair value of held for trading investments	–	–	–	(15,792)	**17,318**
Return on advances and charge over assets granted to an associate	–	–	–	–	**18,898**
Share of results of associates	–	–	–	29,943	**(1,109)**
Share of result of a jointly controlled entity	–	–	(154)	172	**1,356**
Finance costs	(750)	(1,348)	(2,027)	(1,163)	**(1,032)**
Profit (loss) before taxation	6,912	6,667	(29,296)	(268,920)	**189,036**
Taxation	(1,754)	(1,165)	556	528	**(29,985)**
Profit (loss) for the year	5,158	5,502	(28,740)	(268,392)	**159,051**

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	As at 31 December				
	2005	2006	2007	2008	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	264,031	275,319	916,931	721,663	**892,277**
Total liabilities	(28,031)	(34,485)	(41,069)	(90,432)	**(68,310)**
Equity	236,000	240,834	875,862	631,231	**823,967**