Annual Report 2009

東方明珠創業有限公司
Pearl Oriental Innovation Limited
Stock Code：0632

CONTENTS

DIRECTORS

EXECUTIVE DIRECTORS:

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

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Yu Jianmeng
Fung Hing Chiu, Cyril
Lam Ka Wai, Graham

SOLICITORS

Hastings & Co.
Lau Kwong & Hung

PRINCIPAL BANKERS

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

COMPANY SECRETARY

Cheung Kwok Yu

AUDITORS

Ascenda Cachet CPA Limited
(formerly Cachet Certified Public Accountants Limited)

AUTHORISED REPRESENTATIVES

Wong Kwan
Cheung Kwok Yu

REGISTERED OFFICE:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE:

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

BERMUDA RESIDENT REPRESENTATIVE

John C.R. Collis

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE AND OTHER INFORMATION

For more information on the Company, please find us on the World-Wide-Web at www.pearloriental.com

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

	2009 *HK$'000*	2008 *HK$'000*
For the year ended 31 December		
Turnover	**195,530**	78,783
Operating loss	**(39,180)**	(20,599)
Net Profit/(Loss) attributable to shareholders	**(566,840)**	(38,310)
Loss per share		
Basic (cents)	**(87.6)**	(8.5)
Diluted (cents)	**(87.6)**	(8.5)
Average shareholders' equity	**421,062**	491,622
Average capital employed	**513,283**	574,419
At 31 December		
Total indebtedness	**—**	60,380
Shareholders' equity	**344,987**	521,943
Capital employed	**411,287**	615,278
Ratio		
Return on average capital employed (%)	**188.6%**	(7.2%)
Return on average equity (%)	**134.6%**	(7.8%)
Total debt to total capital (%)	**N/A**	15%

Notes:

1. Total indebtedness = total bank borrowings

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

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

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

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

In 2009, a year full of challenges and opportunities, Pearl Oriental Innovation Limited has unfolded a new chapter.

The turnover of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2009 (the "Year") was approximately HK$195,530,000, representing an increase of 148% as compared with that of 2008. The loss attributable to the shareholders of the Company was approximately HK$566,840,000. Such significant loss is mainly attributed to a full provision for impairment loss on the coal mining assets owned by China Coal Energy Holdings Limited with a book value of approximately HK$922,318,000, in which the Group held a 55.11% equity interest. The provision attributable to the equity shareholders of the Company was approximately HK$523,224,000. The Group's cash and bank balances as at the end of the reporting period was approximately HK$224,314,000, representing an increase of 13.2 times as compared with that of 2008, which manifested our healthy financial condition.

The Board has adopted a prudent fiscal policy after considering professional advice cautiously. As a result of the judgment made by the People's High Court of Shanxi Province (山西省高級人民法院), it was held that the Department of Land and Resources, Shanxi Province (山西省政府國土資源廳) has acted illegally in administration and the mining permit of a coal mine owned by China Coal's subsidiary has been cancelled, and the Group has decided to make a full provision for an one-off non-cash impairment loss on the related asset.

The Board is pleased that during the annual conferences of the Chinese People's Political Consultative Conference ("CPPCC") and the National People's Congress of the People's Republic of China held in March 2010, a motion was put forward and jointly signed by 28 committee members of CPPCC from Hong Kong requesting the Government of Shanxi Province (山西省政府) to assume responsibility of compensation to the Company in accordance with the laws which has caused serious concerns from the Central Authorities including the Supreme People's Court (最高人民法院). Currently, Management is under negotiation with the related authorities of Shanxi Province to resolve the matters. In addition, since the second half of 2009, the Group has started to negotiate with independent third parties for disposal of the controlling shareholding of China Coal and the negotiation is still ongoing. The Board will take all the lawful, reasonable and effective measures to protect and even enhance the interests of the shareholders as a whole.

The Group has restructured its core business last year. With the acquisition of IB Group's recycled plastic business, which had an annual turnover over HK$500 million, and forming the joint venture, China Environmental Resources Limited, the Group has resolutely cut loss by disposing of logistics business and the bonded warehouse which had been suffering losses for years. After the disposal, the Group has realized a net proceed of approximately HK$54,987,000 and does not have any outstanding bank loans by then.

Dr. Lew Mon Hung, a committee member of CPPCC, a member of the Commission on Strategic Development of HKSAR and a financial expert, joined the Company as the Deputy Chairman and Executive Director in December 2009. The Company also appointed Mr. Yu Jianmeng, who has extensive connections in commercial and political areas in China, as an Independent Non-executive Director. Thereafter, the Company has successfully accomplished two shares placements, raising fund of approximately HK$500 million, and a number of reputable international funds and strategic investors have become our new shareholders. The Company's financial position has been further strengthened. By capitalizing the favourable situation, the Group will invest US$225 million to acquire 100% ownership interest in the Utah Gas and Oil Field which will be satisfied by a relatively small portion of cash and mainly by issuing new shares of the Company. The transaction has been approved by the Committee of Foreign Investment of the United States ("CFIUS"). At the same time, the Company is going to take this opportunity to build up a long-term mutual beneficial partnership with large-scale state-owned enterprises. It is expected upon completion of the transaction, the Utah Gas and Oil Field project will bring long-term and steady income and desirable return on investment to the Group. The Company is on the track moving into a new era of development at full speed.

"Although the road is challenging, we will explore right ways to move forward!" The core business of the Group will concentrate on investment and operation in energy and environmental recycling resources. Together with our management team, I do have full confidence on the development of Pearl Oriental and strongly believe that under the dynamic leadership of the Board, the Company will achieve good results at a firm and vigorous pace.

I would like to take this opportunity to thank all of our shareholders, directors and staff for their full and hearted support.

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

28 April 2010, Hong Kong

PROFILES OF DIRECTORS

EXECUTIVE DIRECTORS

MR. WONG KWAN (CHAIRMAN)

Aged 62, is currently the Chairman and chief executive of the Company, Mr. Wong is a veteran in the investment and property development fields and has over 30 years of experience in diversified investment, operation & management in Hong Kong, China and overseas. Mr. Wong is also well known in the Asian business world with extensive business connections in the Asia Pacific region. Mr. Wong was appointed as our Chairman and chief executive in May 2006.

DR. LEW MON HUNG (DEPUTY CHAIRMAN)

Aged 61, is a renowned figure in political and economical sectors in China and Hong Kong. Dr. Lew is currently a committee member of the National committee of the Chinese People's Political Consultative Conference and a member of the Executive Committee Commission on Strategic Development of HKSAR, Chairman of Smart Strategy Limited and Chairman of ABC Communications (Holdings) Limited. Dr. Lew was appointed as our Deputy Chairman and executive director in December 2009.

Dr. Lew has more than 30 years of experience in financial investment and corporate management; and has remarkable results in corporate finance, mergers and acquisitions. Dr. Lew was recently the chairman of G-Resources Group Ltd. Under his leadership, its management team had successfully acquired a US$ 200 million gold mine project and arranged a fund raising of US$ 600 million which has established a good foundation for the restructuring of its listed company.

MR. CHEUNG KWOK YU

Aged 40, has over 18 years of experience with international accounting firms and law firms and listed companies in direct investment, accounting, legal, corporate finance and mergers and acquisitions. Mr. Cheung is a Chartered Financial Analyst charterholder and a professional accountant in Hong Kong, and is also qualified as a solicitor in Hong Kong. Mr. Cheung has a Master degree in Applied Finance from Macquarie University in Sydney and a Bachelor of Arts degree in Accountancy from Hong Kong Polytechnic University. Mr. Cheung was appointed as our executive director in May 2006.

MR. ZHOU LI YANG

Aged 51, is currently the Managing Director of the Company. Mr. Zhou is responsible for execution of the strategic development and daily operation of the Group. Mr. Zhou has substantial experience in listed company management, mergers and acquisitions, direct investment, corporate finance and fund management acquired from more than 10 years managerial and professional work experience for 5 listed companies, an investment fund and a banking institute of Hong Kong. He also has more than 10 years management working experience in a provincial government and a conglomerate of China. Mr. Zhou holds a Bachelor degree in Physics from Central-South University, PRC and a Master degree in Business/Finance from University of Baltimore, USA. Mr. Zhou was appointed as our managing director and executive director in September 2004.

MR. ZHENG YINGSHENG

Aged 49, has had over 26 years working experience in logistics management and transportation operations. Mr. Zheng is responsible for overseeing the logistics business of the Group. He had worked for several sizeable and reputable transportation and logistics companies at senior management level being respectively in charge of land transportation, ocean cargo forwarding, warehouse management, fleet management and container terminal operations, etc. He is particularly experienced in transportation and logistics work flow and systems designs and management. Mr. Zheng holds a Bachelor of Economics degree in Marine Economics from School of Economics & Management, Shanghai Maritime University and a Diploma in Business Administration from Zhejiang University, the PRC. Mr. Zheng was appointed as our executive director in March 2003.

MR. JOHNNY YUEN

Aged 64, American Chinese, he is one of the management experts in the first group whom came back to China at the end of 1985. He has more than 30 years of hotel, property investment and management experiences. He is currently the Chairman of Renel Group Co. Ltd and also the Chairman of the Les Amis d'Escoffier Society, Asia-Pacific region. Mr. Yuen also serves as the life member of US Republican Presidential Task Force. He has been awarded successively with the "Foreign Expert Friendship Award of People's Republic of China" and the "Outstanding Contribution Award of Guangzhou City" etc. Mr. Yuen was appointed as our executive director in January 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS ("INEDs")

YU JIAN MENG

Aged 58, Mr. Yu has extensive personal connections and commercial relationships in China. He has over 30 years' experience in press publication, telecom technology, tourism, financial investment and industrial development. He was the Chief Reporter of Xinhua News Agency in Putong, Shanghai and the President of Xinhua Agency East Development Company. Since 1999, he was appointed as the President of Shanghai SIIT Development Holdings Ltd, President of China in Investment and Development of Star Cruise Group and the Executive Director of VODone Ltd. Mr. Yu is currently the Director and CEO of WorldVest Capital Ltd. Mr. Yu holds a Master Degree in Economics from East China Normal University, in jointly course with the University of Hawaii. He was awarded the Senior Economist by Xinhua News Agency. Mr. Yu was appointed as our independent non-executive director in September 2009.

MR. FUNG HING CHIU, CYRIL

Aged 70, is a prominent international and Hong Kong entrepreneur. Mr. Fung graduated from Harvard Graduate School of Business Administration with an Master Degree in Business Administration in 1965. He had worked for Morgan Guaranty Trust in New York head office and Bank of East Asia. Mr. Fung was the Managing Director of Fung Ping Fan Holdings. He was also the Co-founder and Chairman of the first venture capital fund in Asia, Inter-Asia Management Co. Ltd. and succeeded in bringing McDonald's to Hong Kong and Singapore. Mr. Fung's strong strategic sense, proven value-enhancement expertise and very diverse business experience made him a distinct business investment consulting professional. Mr. Fung was appointed as our independent non-executive director in July 2007.

MR. LAM KA WAI, GRAHAM

Aged 42, graduated from the University of Southampton, England with a Bachelor of Science degree in Accounting and Statistics. He is a member of Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lam is currently the Managing Director and Head of Corporate Finance of an investment bank and has around 16 years experience in investment banking as well as around 4 years experience in accounting and auditing. He is also the independent non-executive director of Cheuk Nang (Holdings) Limited (stock code: 131), Applied Development Holdings Limited (stock code: 519), China Fortune Group Limited (stock code: 290), ZZNode Technologies Company Limited (stock code: 2371), China Sonangol Resources Enterprise Limited (stock code: 1229), Pearl Oriental Innovation Limited (stock code: 632) and Value Convergence Holdings Ltd (stock code:821), companies listed on the Main Board of The Stock Exchange of Hong Kong Limited; and China Railway Logistics Limited (stock code: 8089) and Finet Group Limited (stock code: 8317), companies listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Mr. Lam was appointed as our independent non-executive director in October 2008.

MR. DONG ZHIXIONG

Aged 63, has 41 years solid experience in metallurgy, steel industry and mining operation. He has joined China Metallurgy Import and Export Company in 1982 and become the General Manager of one of its mining subsidiaries. Mr. Dong has subsequently been promoted to the Vice President of China Sinosteel Group Company and be responsible for its investments in international resources, development and supervision. Mr. Dong has also been the Chairman of ASA Metal Co. Ltd, the largest mining company for chromate mines in South Africa for 10 years. Mr. Dong has graduated from the Faculty of Automatization of University of Science and Technology of Beijing (formerly known as Beijing Institute of iron and Steel Engineering) and has a bachelor degree in Industrial Studies. Mr. Dong resigned as an INED on 1 October 2009 and become a consultant of the Company effective from 1 October 2009 for two years.

PROFILES OF SENIOR MANAGEMENT

MR. RALPH CURTON, CHIEF OPERATING OFFICER

Mr. Ralph Curton, has 40 years of experiences in the operation and management in the oil and natural gas industry. In the 70's, Mr. Curton invested 50,000 productive arces in oil and natural gas enterprise in East Texas and Louisiana, and had successfully developed more than 300 oil and gas wells. Over the years, Mr. Curton has established close relationships with U.S. well-known oilfield engineering services company, Halliburton and natural gas exploration enterprise, Anadarko. The next mutual development goal between Pearl Oriental and Mr. Curton is to work together to acquire a huge natural gas and oilfield project around this Utah Gas and Oilfield with a natural gas reserve exceeding 2,000 Bcf, then to invite China and international first-class oil enterprises to be the strategic partners.

MR. YAM KWOK SHUN, CHIEF TECHNICAL OFFICER

Aged 59, Mr. Yam is responsible for Pearl Oriental's development of energy and resources businesses and technical supervision. Mr. Yam has a Master degree in Aerospace Engineering and a Bachelor degree in Mechanical Engineering. He is a member of Society of Petroleum Engineers, Hong Kong Institute of Engineers and Professional Engineer registered in the State of Texas respectively. Mr. Yam has more than 30 years of extensive management experience in the oil and natural gas sector. He has held senior management positions in the U.S. prestigious petroleum and technology companies such as Hughes Offshore, NL Rig Equipment and Kerr-McGee Corporation etc, to render diversified professional services including operation management, design co-ordination and international business expansion of natural gas and oilfield projects for various states in the U.S., Gulf of Mexico, North Sea, Asia Pacific and Australia etc. Before joining Pearl Oriental, Mr. Yam was the Deputy JMC Chairman and Operation Manager for Anadarko's South China Sea deep water gas and oilfield project, which successfully exploited oil reserve of 150 million barrels. He is also the team member of the joint venture of China National Offshore Oil Corporation and Anadarko for Bohai oilfield project.

MR. CHEUNG MO KIT, MANAGING DIRECTOR OF CHINA ENVIRONMENTAL RESOURCES LIMITED

Aged 59, Mr. Cheung has over 30 years solid experience in environmental plastic industry. Mr. Cheung founded IB Group in 1978, engaging in the processing of plastic waste materials and trading of recycled plastics. IB Group has also established recycled plastic factories in PRC and Malaysia. After years of development, IB Group has extensive sales network in PRC and supply network in Japan. The annual turnover of IB Group exceeds HK$ 500 million. The strategic restructuring of IB Group and Euro Resources will bring rapid business development potential to China Environmental.

MR. YU KIN WING, FINANCE MANAGER AND ASSISTANT COMPANY SECRETARY

Aged 38, Mr. Yu obtained his bachelor of business administration degree in accounting from the Hong Kong University of Science and Technology and his master of business administration in the University of South Australia. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has extensive knowledge in the accounting field and had worked for several Hong Kong listed companies before joining the Group.

RESULTS AND REVIEW OF OPERATIONS

For the year ended 31 December 2009 (the "Year"), the Company and its subsidiaries (the "Group") recorded a consolidated turnover of HK$195,530,000 (2008: HK$78,783,000), implying an increase of approximately 148%. The share of loss of associates for the Year was HK$548,000 (2008: HK$12,752,000). Basic loss per share was 87.6 HK cents for the Year as compared to the basic loss per share of 8.5 HK cents for the year ended 31 December 2008.

BUSINESS REVIEW

The substantial increase in the turnover was due to the formation of the joint venture company, China Environmental Resources Limited ("China Environmental"), which is 60% owned by the Group and its sales of plastic recycling materials accounted for over 80% of the Group´s turnover during the Year, although the logistics business has decreased due to the Board's decision to disposing of the loss making business, Guangzhou Pearl Oriental Logistics Limited and the bonded warehouse in Shenzhen during the year 2009.

The global economic downturn has impacted the entire export and logistics industries substantially, and in turn, our business. The gross profit margin has decreased from approximately 35% in 2008 to 10.5% during the Year as the margin of trading of recycling material is generally lower than that of logistics service income.

PROSPECTS

LOGISTICS

As previously announced by the Company, during the Year, the Group has disposed of a bonded warehouse property in Futian, Shenzhen, PRC (the "Warehouse") and the Group will concentrate on its core business in the energy and environmental recycling plastic resources sectors.

Following the completion of the disposal of the Warehouse, the logistics operations of the Group has substantially scaled down accordingly. As a result and as announced before, the Group will focus its effort on energy, natural resources and environmental plastic recycling businesses by utilizing the proceeds from the recent placing of Shares and the disposal of the Warehouse.

COAL INVESTMENT

In July 2009, the Company has completed the acquisition of additional 15.18% equity interest of China Coal Energy Holdings Limited ("China Coal"). Accordingly, the Group holds an aggregate 55.11% controlling shareholding of China Coal and it renders the Group at a better position.

PLASTIC RECYCLING INDUSTRY

The Company is optimistic on the potential development of the environmental plastic recycling business. In August 2009, the Company announced to invest at a total of HK$100 million to acquire IB Group's recycled plastic business with its 2008 annual turnover exceeding HK$500 million and 20% minority interests of Euro Resources China Limited ("Euro Resources"). The Group currently owns 60% equity interest of the restructured China Environmental. The Board anticipates that the plastic recycling business will make a significant contribution to the leap development of the Group in 2010.

After the completion of the acquisition and restructuring, China Environmental owns the entire equity interest of IB Environmental Plastic and Euro Resources.

The Board is pleased to point out that Mr. Cheung Mo Kit has founded the IB Group to operate the environmental plastic business for over 30 years, and has a large number of stable customers in China and has a good reputation in the market, and also has extensive supplier networks in Japan. The Company's plastic recycling business will have a greater development potential after the joining of Mr. Cheung Mo Kit and the management team led by him given their solid experience.

OUTLOOK

UTAH GAS AND OIL FIELD PROJECT

Subsequent to the end of the reporting period, the Group has announced an acquisition of the Utah Gas and Oil Field project (the "Acquisition") for a consideration of up to US$225 million in January 2010.

Countries around the world are striving for reducing emissions and solving the problems of global warming. A number of international energy enterprises are increasing their investments actively in the green energy sector. Therefore, the exploring, mergers and acquisitions of natural gas has become a crowded situation. Experts forecasted the future demand for natural gas will increase and the market price will definitely rise steadily which is favourable for increasing the operating profit.

The Board believes that the Acquisition is a good opportunity for the Group to achieve good investment returns in the energy sector. Especially, as a result of the global financial tsunami, it is difficult for small non-listed gas and oil enterprises in United States to raise financing for their operations. In such situation, good opportunity for the Acquisition has therefore arisen.

Together with internal resources of the Company and upon the completion of the recent issues of new shares raised about HK$319 million in April 2010, the Company will have adequate funding to finance the consideration and the development costs for the Acquisition. In addition, as CFIUS has already granted approval for the Company's acquisition of ownership interest in the Utah Gas and Oil Field, the Company will complete the Acquisition soon after obtaining independent shareholders´ approval at a special general meeting of the Company to be held since most of the Conditions Precedent have been fulfilled.

The Board is pleased to be advised that, the rework of seven (7) existing wells of Utah Gas and Oil Field project has been started, and that of other seven (7) new wells are under planning. We expect that there will be the first gas production in sales within 3 months. The Board believes that the Utah Gas and Oil Field project will bring long-term, steady and desirable return on investment to the Group.

As the Group has effectively managed through the turbulent economic times and emerges as a more healthy company which is positioned to take advantage of growth in the energy and recycling sectors in the near future.

As disclosed before, Management has been making its best endeavour to protect and maximize the Group´s interest in China Coal Group, including without limitation, by taking appropriate legal and other actions, and considering to dispose of its interest in China Coal Group if such terms of disposal are to the best interests of the Group and its shareholders as a whole.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operations with issue of news shares and convertible notes and internally generated resources. As at 31 December 2009, the Group has a net cash position while the Group's gearing ratio (calculated on the basis of the Group's bank borrowings over total assets) was 19% as at 31 December 2008. At the end of the reporting period, the Group did not have any outstanding bank borrowings (2008: HK$60,000,000), which was secured by certain properties of the Group located in the PRC and the trade receivables of a subsidiary. The Group has received proceeds of approximately HK$53 million from the disposal of the Warehouse, and the Group does not have any outstanding bank loan upon the completion. Furthermore, the Group's cash and bank balances as at 31 December 2009 have substantially increased to approximately HK$224 million from HK$15.8 million as at 31 December 2008 due to the placing of about 180 million new shares in December 2009. The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to 4.7 as at 31 December 2009 (2008: 0.89).

During the year, the Group's bank loan facilities were subject to the fulfilment of covenants relating to certain capital requirements, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2009, the banking facilities have been terminated following the disposal of the related subsidiaries.

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

LITIGATIONS

The litigations detailed in notes 22 and 41 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2009, the number of employees of the Group was about 80 (2008: 950). The remuneration packages of employees are maintained at competitive levels and include monthly salaries, mandatory provident fund, medical insurance and share option schemes; other employee benefits include meal and travelling allowances and discretionary bonuses.

FINANCIAL POSITIONS OF THE GROUP

As at 31 December 2009, the Group does not have any outstanding bank loans (31 December 2008: HK$60,000,000).

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS

During the year, the Group has increased its interests in China Coal, Euro Resources, China Environmental.

Contingent Liabilities

As at 31 December 2008, corporate guarantees were given to the banks by the Company for the banking facilities granted to the subsidiary of the Company, which were utilised to the extent of approximately HK$60,000,000. The relevant corporate guarantees were released upon the disposal of subsidiaries during the year ended 31 December 2009.

Details of the Group's litigation and the related contingent liabilities (if any) are set out in notes 22 and 41 to the financial statements.

Capital Commitments

As at 31 December 2009, the Group had contracted but not provided for capital commitments for the proposed acquisition of a subsidiary and leasehold improvements of approximately HK$8,384,000.

Assets Pledged

As at 31 December 2009, no asset (31 December 2008: carrying value of approximately HK$106,237,000) was pledged with banks as security for loan facilities granted to the Group.

Share Option Scheme

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

Reference is made to the Company's circular dated 21 October 2008 in relation to the cancellation of all the then outstanding share options granted but not exercised.

An ordinary resolution of the Company was passed on 15 July 2009 in respect of terminating the Old Scheme (such that no further options could be granted under the Old Scheme but in all other respects the provisions of the Old Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Old Scheme and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Old Scheme) and the adoption of New Share Option Scheme whose terms will comply with Chapter 17 and other relevant provisions of the Listing Rules and which became effect on 15 July 2009.

It is proposed that the Company shall adopt the New Share Option Scheme to provide the Eligible Persons a performance incentive for continued and improved service with the Company and its Subsidiaries and by enhancing such persons' contribution to increase profits by encouraging capital accumulation and share ownership.

The directors present their annual report and the audited financial statements for the year ended 31 December 2009.

Principal Activities

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

Results and Appropriations

The results of the Group for the period ended 31 December 2009 are set out in the consolidated statement of income on page 25.

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

Property, Plant and Equipment

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

Distributable Reserves of the Company

At 31 December 2009, no distributable reserves were available for distribution to the equity shareholders of the Company.

Share Capital

Details of the movements during the year in the share capital of the Company together with the reason therefor are set out in note 30 to the financial statements.

Directors

The directors of the Company during the year were:

Executive Directors:

Wong Kwan
Lew Mon Hung (appointed on 3 December 2009)
Cheung Kwok Yu
Zhou Li Yang
Zheng Yingsheng
Johnny Yuen
Chan Yiu Keung (resigned on 6 February 2009)

Independent Non-executive Directors:

Dong Zhixiong (resigned on 1 October 2009)
Yu Jianmeng (appointed on 19 September 2009)
Fung Hing Chiu, Cyril
Lam Ka Wai, Graham

In accordance with Clause 86(2) of the Company's Bye-Laws, Dr. Lew Mon Hung and Mr. Yu Jianmeng so appointed by the Board to fill a causal vacancy on the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that gereral meeting.

In accordance with Clause 87(1) of the Company's Bye-Laws, each of Mr. Zheng Yingsheng, Mr. Johnny Yuen and Mr. Lam Ka Wai, Graham will retire as director by rotation at the forthcoming annual general meeting and being eligible, offer himself/herself for re-election as director. All other remaining directors continue in office. Other than as disclosed above, no director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 6, 7 and 8 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2009, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

LONG POSITIONS

(A) ORDINARY SHARES OF HK$0.10 EACH OF THE COMPANY

	Number of Shares held in the Capacity of				
Name of Directors	Beneficial owner	Held by controlled corporation	Held by trust	Total number of Shares held	Percentage of the issued share capital of the Company
Wong Kwan (note)	—	452,084,800	—	452,084,800	39.86%
Johnny Yuen	640,000	—	—	640,000	0.06%
Fung Hing Chiu, Cyril	—	—	1,272,090	1,272,090	0.11%
Cheung Kwok Yu	3,000,000	—	—	3,000,000	0.26%
Zheng Yingsheng	1,000,000	—	—	1,000,000	0.09%

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

(b) Share Options

Name of Directors	Capacity	Number of options held	Exercise Period	Exercise Price (HK)
Wong Kwan	Beneficial owner	3,000,000	05/08/2009-14/07/2019	0.56
Zhou Li Yang	Beneficial owner	3,000,000	05/08/2009-14/07/2019	0.56
Johnny Yuen	Beneficial owner	3,000,000	05/08/2009-14/07/2019	0.56
Fung Hing Chiu, Cyril	Beneficial owner	3,000,000	05/08/2009-14/07/2019	0.56
Dong Zhixiong	Beneficial owner	3,000,000	05/08/2009-14/07/2019	0.56
Lam Ka Wai, Graham	Beneficial owner	3,000,000	05/08/2009-14/07/2019	0.56
Yu Jianmeng	Beneficial owner	1,000,000	05/08/2009-14/07/2019	0.56
Zheng Yingsheng	Beneficial owner	1,000,000	05/08/2009-14/07/2019	0.56
Lew Mon Hung	Beneficial owner	3,000,000	03/12/2009-14/07/2019	0.83

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2009.

Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, as at 31 December 2009, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long Positions

Name of Substantial Shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Orient Day Developments Limited (Note)	Beneficial owner	452,084,800	39.86%

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2009.

Appointment of Independent Non-executive Directors

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

Emolument Policy

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

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

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

Related Party Transactions

Details of the significant related party transactions during the year are detailed in note 40 to the financial statements.

Pre-emptive Rights

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

Purchase, Sale or Redemption of the Company's Listed Securities

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

Major Customers and Suppliers

During the year, the aggregate sales attributable to the Group's largest customers and five largest customers taken together accounted for 10.5% and 39.4% respectively of the Group's total sales for the year. The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 19.0% and 56.3% respectively of the Group's total purchases for the year.

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year.

Events after the End of the Reporting Period

Details of the events taken place after the end of the reporting period are set out in note 42 to the financial statements.

AUDITORS

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

The financail statements for the years ended 31 December 2008 and 2009 have been audited by Ascenda Cachet CPA Limited (formerly Cachet Certified Public Accountants Limited), who retire and a resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Ascenda Cachet CPA Limited.

By order of the Board

Cheung Kwok Yu
Executive Director & Company Secretary

28 April 2010

Shareholders' Rights and Investor Relations

The rights of shareholders of the Company are contained in the Articles. The Group firmly believes the importance of communicating with the investment community and the shareholders in attaining a high level of transparency. The general meetings of the Company provide a platform for communication between the shareholders and the Board. The Chairman of the Board as well as chairman of the Audit Committee or if, in their absence, other members of the respective committees, and where applicable, the independent board committee, are available to answer questions at the shareholders' meetings. The Company endeavours to provide timely and accurate information to the investors to enhance the business development strategy and direction of the Group.

The Group will continue to maintain a close relationship with investors and develop greater understanding about the Group for international investors, to enhance investors' confidence in the Group.

Corporate Governance Practices

The board of Directors of the Company (the "Board") is committed to achieving high standard of corporate governance. In the opinion of the Board, the Company has complied throughout the year ended 31 December 2009 (the "Year") with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which was in force on 1 January 2005, save for the following:

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

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

Directors' Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the Year ended 31 December 2009.

Board of Directors

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

As at 31 December 2009, the Board comprises nine members, six of whom are executive directors, and three are independent non-executive directors. One-third of the Board is independent non-executive directors and more than one of them have appropriate professional qualifications or accounting or related financial management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Communications with Shareholders and Investors

To promote effective communication, the Company maintains a website at www.pearloriental.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Shareholder Rights

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

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

	Meetings attended/held	
	Board Meetings	Audit Committee Meetings
Executive Directors:		
Wong Kwan *(Chairman & Chief Executive)*	2/2	N/A
Dr. Lew Mong Hung *(Note 1)*	0/2	N/A
Cheung Kwok Yu	2/2	N/A
Zhou Li Yang	2/2	N/A
Zheng Yingsheng	1/2	N/A
Johnny Yuen	1/2	N/A
Chan Yiu Keung *(Note 2)*	N/A	N/A
Independent Non-executive Directors:		
Dong Zhixiong *(Note 3)*	2/2	2/2
Yu Jianmeng *(Member of Audit Committee) (Note 4)*	1/2	1/2
Fung Hing Chiu, Cyril *(Member of Audit Committee)*	2/2	2/2
Lai Ka Wai, Graham *(Chairman of Audit Committee)*	2/2	2/2

Notes:

(1) Appointed on 3 December 2009

(2) Resigned on 6 February 2009

(3) Resigned on 1 October 2009

(4) Appointed on 19 September 2009

To the best knowledge of the Board, there is no relationship (including financial, business, family or other relationship) among members of the Board as at 31 December 2009. All of them are free to exercise their individual judgments.

CHAIRMAN AND MANAGING DIRECTOR

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

REMUNERATION OF DIRECTORS

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

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

NOMINATION OF DIRECTORS

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

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

INTERNAL CONTROL

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

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

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

AUDITORS' REMUNERATION

For the year ended 31 December 2009, Ascenda Cachet CPA Limited (formerly Cachet Certified Public Accountants Limited), the existing external auditors provided the following services to the Group:

	HK$'000
Annual audit services	850
Other assurance services	420
	1,270

AUDIT COMMITTEE

As at 31 December 2009, the Audit Committee currently comprises the three independent non-executive directors, namely Mr. Lai Ka Wai, Graham (Chairman of the Audit Committee), Mr. Yu Jianmeng and Mr. Fung Hing Chiu, Cyril. The Audit Committee held two meetings during the Year. The Audit Committee is provided with sufficient resources to discharge its duties. The term of reference of the Audit Committee follow the guidelines sset out in the CG Code. The principal duties of the Audit Committee include the review of the financial reporting and internal control system of the Group, review of half-yearly and annual reports and accounts review and monitor the appointment of the auditors and their independence.

The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2009.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the external auditors of the Company, Ascenda Cachet CPA Limited, with regard to their reporting responsibilities on the Company's financial statements is set out in the Independent Auditor's Report on page 23.

Ascenda Cachet CPA Limited
天健德揚會計師事務所有限公司

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

We have audited the financial statements of Pearl Oriental Innovation Limited (the "Company") and with its subsidiaries (the "Group") set out on pages 25 to 115, which comprise the consolidated and Company statements 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 FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

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

Ascenda Cachet CPA Limited
(Formerly Cachet Certified Public Accountants Limited)
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
28 April 2010

	Notes	2009 HK$'000	2008 HK$'000
REVENUE	5	**195,530**	78,783
Cost of sales		**(175,091)**	(51,095)
Gross profit		**20,439**	27,688
Other income and gains	5	**23,968**	12,493
Selling and distribution costs		**(5,345)**	(17,609)
Administrative expenses		**(78,242)**	(43,171)
Finance costs	7	**(5,597)**	(6,494)
Impairment loss on available-for-sales investments		**(922,318)**	—
Share of losses of associates		**(548)**	(12,752)
LOSS BEFORE TAX	6	**(967,643)**	(39,845)
Income tax expense	10	**(319)**	(1,420)
LOSS FOR THE YEAR		**(967,962)**	(41,265)
Attributable to:			
Owners of the Company	12	**(566,840)**	(38,310)
Minority interests		**(401,122)**	(2,955)
		(967,962)	(41,265)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		**(87.6) cents**	(8.5) cents
Diluted		**(87.6) cents**	(8.5) cents

	2009	2008
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(967,962)**	(41,265)
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**1,949**	5,742
Income tax effect	**—**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**1,949**	5,742
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(966,013)**	(35,523)
Attributable to:		
Owners of the Company	**(564,911)**	(33,778)
Minority interests	**(401,102)**	(1,745)
	(966,013)	(35,523)

	Notes	2009 HK$'000	2008 HK$'000
NON–CURRENT ASSETS			
Property, plant and equipment	14	**64,465**	165,331
Prepaid land lease payments	15	**—**	18,868
Deposits paid		**761**	—
Goodwill	16	**121,945**	16,921
Interests in an associate	17	**—**	420,903
Available-for-sales investments	22	**—**	—
Total non-current assets		**187,171**	622,023
CURRENT ASSETS			
Inventories	19	**8,707**	9,083
Trade receivables	20	**6,199**	10,250
Prepayments, deposits and other receivables	21	**47,521**	11,195
Available-for-sales investments	22	**—**	—
Due from an associate	18	**—**	5,593
Cash and cash equivalents	24	**224,314**	15,787
Total current assets		**286,741**	51,908
CURRENT LIABILITIES			
Trade payables	25	**5,700**	8,767
Other payables and accruals	26	**51,696**	19,886
Interest-bearing bank borrowings, secured	27	**—**	8,382
Due to minority shareholders of subsidiaries	23	**—**	5,167
Tax payable		**319**	16,451
Loan from immediate parent and ultimate controlling party	28	**4,910**	—
Total current liabilities		**62,625**	58,653
NET CURRENT ASSETS/(LIABILITIES)		**224,116**	(6,745)
TOTAL ASSETS LESS CURRENT LIABILITIES		**411,287**	615,278
NON-CURRENT LIABILITIES			
Due to minority shareholders of subsidiaries	23	**—**	16,337
Interest-bearing bank borrowings, secured	27	**—**	51,998
Loan from immediate parent and ultimate controlling party	28	**66,300**	25,000
Total non-current liabilities		**66,300**	93,335
Net assets		**344,987**	521,943

	Notes	2009 HK$'000	2008 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	**115,922**	46,474
Reserves	32(a)	**212,906**	466,822
		328,828	513,296
Minority interests		**16,159**	8,647
Total equity		**344,987**	521,943

Zhou Li Yang
Director

Cheung Kwok Yu
Director

	Attributable to the owners of the Company									
	Issued capital HK$'000	Share premium account HK$'000	Treasury shares HK$'000 (note 32(a))	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2008	193,641	345,610	(10,556)	420,430	3,265	—	(482,442)	469,948	6,297	476,245
Total comprehensive income for the year	—	—	—	—	4,532	—	(38,310)	(33,778)	(1,745)	(35,523)
Issue of new shares	38,728	38,728	—	—	—	—	—	77,456	—	77,456
Share issue expenses	—	(330)	—	—	—	—	—	(330)	—	(330)
Capital reduction	(185,895)	—	—	—	—	—	185,895	—	—	—
Cancellation of share options	—	—	—	(16,579)	—	—	16,579	—	—	—
Increase in minority interests arising from acquisition of a subsidiary	—	—	—	—	—	—	—	—	4,095	4,095
At 31 December 2008 and 1 January 2009	46,474	384,008	(10,556)	403,851	7,797	—	(318,278)	513,296	8,647	521,943
Total comprehensive income for the year	—	—	—	—	1,929	—	(566,840)	(564,911)	(401,102)	(966,013)
Exchange fluctuation reserve realised upon disposal of a subsidiary (note 36)	—	—	—	—	(7,276)	—	—	(7,276)	—	(7,276)
Issue of new shares (note 30)	68,568	308,026	—	—	—	—	—	376,594	—	376,594
Share issue expenses	—	(530)	—	—	—	—	—	(530)	—	(530)
Equity-settled share options arrangements (note 31)	—	—	—	—	—	6,727	—	6,727	—	6,727
Share options exercised during the year	880	5,697	—	—	—	(1,649)	—	4,928	—	4,928
Share options lapsed during the year	—	—	—	—	—	(188)	188	—	—	—
Increase in minority interests arising from acquisition of a subsidiary (note 33)	—	—	—	—	—	—	—	—	399,094	399,094
Increase in minority interests arising from acquisition of a business (note 35)	—	—	—	—	—	—	—	—	5,039	5,039
Contribution from minority interests	—	—	—	—	—	—	—	—	7,000	7,000
Acquisition of minority interests (note 34)	—	—	—	—	—	—	—	—	(2,519)	(2,519)
At 31 December 2009	115,922	697,201*	(10,556)*	403,851*	2,450*	4,890*	(884,930)*	328,828	16,159	344,987

* These reserve accounts comprise the consolidated reserve of HK$212,906,000 (2008: HK$466,822,000) in the consolidated statement of financial position.

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(967,643)**	(39,845)
Adjustments for:			
Finance costs		**5,597**	6,494
Gain on disposal of subsidiaries	36	**(20,270)**	—
Share of losses of associates		**548**	12,752
Interest income	5	**(12)**	(171)
Loss on disposal of property, plant and equipment		**—**	356
Depreciation of property, plant and equipment	14	**9,160**	5,664
Amortisation of prepaid land lease payments	15	**459**	473
Impairment loss on trade receivables	6	**—**	1,838
Impairment loss on available-for-sales investments	6	**922,318**	—
Write off of other receivables	6	**955**	1,206
Write back of other payables		**—**	(545)
Write-off of property, plant and equipment	14	**5**	7,716
Shortfall in profit of an associate guaranteed by an ex-joint venture partner	5	**—**	(9,800)
Equity-settled share option expenses	6,31	**6,727**	—
		(42,156)	(13,862)
Decrease/(increase) in inventories		**376**	(1,881)
(Increase)/decrease in trade receivables		**(3,417)**	5,112
Increase in prepayments, deposits and other receivables		**(43,625)**	(458)
Increase/(decrease) in trade payables		**861**	(10,395)
Increase/(decrease) in other payables and accruals		**8,492**	(24,468)
Cash used in operations		**(79,469)**	(45,952)
Income tax paid		**—**	(1,721)
Net cash flows used in operating activities		**(79,469)**	(47,673)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**12**	171
Purchases of items of property, plant and equipment	13	**(4,673)**	(3,699)
Net cash and cash equivalent inflow from acquisition of subsidiaries	33	**9**	2,029
Net cash and cash equivalent inflow from disposal of subsidiaries	36	**54,987**	—
Proceeds from disposal of items of property, plant and equipment		**—**	70
Advances (to) /from an associate		**(275)**	4,337
Net cash flows from investing activities		**50,060**	2,908

	Notes	2009 HK$'000	2008 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	43	**167,464**	34,653
Repayment of bank loans		**(7,100)**	(4,036)
Net proceeds from the exercise of the share options	30(a)(ix)	**4,928**	—
Advance from minority shareholders of subsidiaries		**—**	4,008
Contribution from minority shareholders		**7,000**	—
Advance from an immediate parent and ultimate controlling party		**71,210**	3,570
Interest paid		**(5,597)**	(6,444)
Net cash flows from financing activities		**237,905**	31,751
NET INCREASE /(DECREASED) IN CASH AND CASH EQUIVALENTS		**208,496**	(13,014)
Cash and cash equivalents at beginning of year		**15,787**	31,617
Effect of foreign exchange rate changes, net		**31**	(2,816)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**224,314**	15,787
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**224,314**	15,787

	Notes	2009 HK$'000	2008 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	**212,420**	527,076
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	**10,684**	80
Cash and cash equivalents	24	**206,624**	8,882
Total current assets		**217,308**	8,962
CURRENT LIABILITIES			
Other payables and accruals	26	**4,073**	2,003
Loan from immediate parent and ultimate controlling party	28	**3,112**	—
Total current liabilities		**7,185**	2,003
NET CURRENT ASSETS		**210,123**	6,959
TOTAL ASSETS LESS CURRENT LIABILITIES		**422,543**	534,035
NON-CURRENT LIABILITIES			
Due to subsidiaries	17	**(11,256)**	(5,350)
Loan from immediate parent and ultimate controlling party	28	**(66,300)**	(25,000)
Total non-current liabilities		**(77,556)**	(30,350)
Net assets		**344,987**	503,685
EQUITY			
Issued capital	30	**115,922**	46,474
Reserves	32 (b)	**229,065**	457,211
Total equity		**344,987**	503,685

Zhou Li Yang
Director

Cheung Kwok Yu
Director

1. CORPORATE INFORMATION

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

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

During the year, the Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") have not changed during the year and were involved in:

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

2.1 BASIS OF PREPARATION

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

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

The Group has incurred a significant loss of approximately HK$967,962,000 for the year ended 31 December 2009. Excluding the effect of impairment losses on available-for-sales investments incurred for the year of approximately HK$922,318,000 the operating loss for the year is approximately HK$45,644,000. Despite of the above, these financial statements have been prepared on the basis that the Group will continue to operate as a going concern because the Group has net current assets and net assets of approximately HK$224,116,000 and HK$ 344,987,000, respectively, as at 31 December 2009. Moreover, as disclosed in notes 42(b) and (c) to the financial statements, subsequent to the end of the reporting period, the Company has entered into arrangements to increase its issued share capital with an aggregate gross proceeds of approximately HK$66.3 million already received and HK$319 million to be received on the completion by the Company.

2.1 Basis of Preparation *(Continued)*

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from inter-company transactions and inter-company balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Contingent consideration is recognised if the adjustment is probable and can be measured reliably. Subsequent measurement of the contingent consideration affects goodwill.

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

2.2 CHANGE IN ACCOUNTION POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 Revenue – Determining whether an entity is acting as a principal or as an agent
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)*	Amendments to a number of HKFRSs except for Amendment to HKFRS 5

* Included in Improvements to HKFRSs 2009 (as issued in May 2009).

Other than as further explained below regarding the impact of HKAS 1 (Revised) and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

(a) HKFRS 8 OPERATING SEGMENTS

HKFRS 8, which replaces HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(b) HKAS 1 (REVISED) PRESENTATION OF FINANCIAL STATEMENTS

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions [2]
HKFRS 3 (Revised)	Business Combinations [1]
HKFRS 9	Financial Instruments [6]
HKAS 24 (Revised)	Related Party Disclosures [5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [1]
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues [3]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 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 [4]
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary [1]
HK Interpretation 4 (Revised in December 2009)	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases [2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

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

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

JOINT VENTURES

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group, has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 Summary of Significant Accounting Policies *(Continued)*

Associates

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

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

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

Goodwill

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

EXCESS OVER THE COST OF BUSINESS COMBINATIONS

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

IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL

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

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

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

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

RELATED PARTIES

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

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

(b) the party is an associate;

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

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

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

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

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 Summary of Significant Accounting Policies *(Continued)*

Property, Plant and Equipment and Depreciation

Property, plant and equipment other than buildings are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

Buildings	Over the shorter of the lease terms and their estimated useful lives
Leasehold improvements	Over the shorter of the lease terms and land use rights or 5 years
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	$16^2/_3$% to $33^1/_3$%

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

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year.

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

Leases

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

INVESTMENTS AND OTHER FINANCIAL ASSETS

INITIAL RECOGNITION AND MEASUREMENT

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables and amount due from associates.

SUBSEQUENT MEASUREMENT

The subsequent measurement of financial assets depends on their classification as follows:

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance cost or operating expenses.

AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. The Group has investments in unlisted shares that are not traded in an active market but that are classified as available-for-sale investment.

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

2.4 Summary of Significant Accounting Policies *(Continued)*

Derecognition of Financial Assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

IMPAIRMENT OF FINANCIAL ASSETS *(Continued)*

FINANCIAL ASSETS CARRIED AT AMORTISED COST *(Continued)*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

ASSETS CARRIED AT COST

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

AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, the amount of the loss measured as the difference between the assets's carrying mount and the present value of estimaed future cash flows discounted at the current market rate of return for a similar financial assets. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL LIABILITIES

INITIAL RECOGNITION AND MEASUREMENT

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank borrowings and amount due to minority shareholders of subsidiaries.

SUBSEQUENT MEASUREMENT

The measurement of financial liabilities depends on their classification as follows:

LOANS AND BORROWINGS

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

CONVERTIBLE BONDS

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market interests rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

DERECOGNITION OF FINANCIAL LIABILITIES

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

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

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

FINANCIAL LIABILITIES *(Continued)*

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

CASH AND CASH EQUIVALENTS

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

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

PROVISIONS

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

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

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies *(Continued)*

Income Tax *(Continued)*

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Revenue Recognition

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

(i) from the provision of logistic services, when the services are rendered;

(ii) rental income, on a time proportion basis over the lease terms;

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

EMPLOYEE BENEFITS

SHARE-BASED PAYMENT TRANSACTIONS

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in note 32 to the financial statements.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

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

OTHER EMPLOYEE BENEFITS

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

EMPLOYEE BENEFITS *(Continued)*

OTHER EMPLOYEE BENEFITS *(Continued)*

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

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

FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

TREASURY SHARES

Treasury shares are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

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

CONTINGENT LIABILITIES IN RESPECT OF LITIGATIONS AND CLAIMS

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

CONTROL OVER TAIYUAN SANXING COAL GASIFICIATION (GROUP) CO., LIMITED ("TAIYUAN SANXING")

The Group assesses whether it has control over the financial and operating policies of Taiyuan Sanxing. As the Group was not provided with the financial and operating information of Taiyuan Sanxing, the Group is unable to exercise its power on the financial and operating matters of Taiyuan Sanxing. The investment in Taiyuan Sanxing is therefore classified as available-for-sale investments.

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of 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, are discussed below.

IMPAIRMENT OF GOODWILL

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HK$121,945,000 (2008: HK$16,921,000). More details are set out in note 16 to the financial statements.

IMPAIRMENT OF NON-FINANCIAL ASSETS (OTHER THAN GOODWILL)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating units exceeds it recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

ESTIMATION UNCERTAINTY *(Continued)*

IMPAIRMENT OF AVAILABLE-FOR-SALE INVESTMENTS

The Group classifies certain assets as available-for-sale investments and stated at cost less impairment losses. The Group assesses at the end of each reporting period whether there is any objective evidence that the available-for-sale investments are impaired. At 31 December 2009, impairment losses of approximately HK$922,318,000 (2008: Nil) have been recognised for available-for-sale assets. The net carrying amount of available-for-sale assets was Nil (2008: Nil). More details are set out in note 22 to the financial statements.

DEPRECIATION AND USEFUL LIVES

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

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

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income and finance costs are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate assets as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2009

	Provision of logistics and related services segment *HK$'000*	Plastic recycling segment *HK$'000*	Total *HK$'000*
Segment revenue:			
Service income	28,266	—	28,266
Gross rental income	3,826	—	3,826
Sales of plastic recycling materials	—	163,438	163,438
	32,092	163,438	195,530
Segment results	(8,822)	(16,686)	(25,508)
Other income and gains			23,968
Unallocated expenses			(959,958)
Loss from operations			(961,498)
Finance costs			(5,597)
Share of losses of an an associate			(548)
Loss before tax			(967,643)
Income tax expense			(319)
Loss for the year			(967,962)
Segment assets	8,450	241,710	250,160
Unallocated assets			223,752
Total assets			473,912
Segment liabilities	8,082	17,541	25,623
Unallocated liabilities			103,302
Total liabilities			128,925
Capital expenditure	415	4,236	4,651
Unallocated capital expenditure			22
			4,673
Depreciation and amortisation	4,245	4,653	8,898
Unallocated depreciation and amortisation			262
			9,160
Impairment loss on available-for-sales investments			922,318
Write-off of other receivables			955

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2008

	Provision of logistics and related services segment *HK$'000*	Plastic recycling segment *HK$'000*	Total *HK$'000*
Segment revenue:			
Service income	66,928	—	66,928
Gross rental income	11,855	—	11,855
Sales of plastic recycling materials	—	—	—
	78,783	—	78,783
Segment results	(9,398)	(968)	(10,366)
Other income and gains			12,493
Unallocated expenses			(22,726)
Loss from operations			(20,599)
Finance costs			(6,494)
Share of losses of associates			(12,752)
Loss before tax			(39,845)
Income tax expense			(1,420)
Loss for the year			(41,265)
Segment assets	140,456	78,739	219,195
Unallocated assets			454,736
Total assets			673,931
Segment liabilities	95,644	8,060	103,704
Unallocated liabilities			48,284
Total liabilities			151,988
Capital expenditure*	2,012	65,520	67,532
Unallocated capital expenditure			520
			68,052
Depreciation and amortisation	5,296	143	5,439
Unallocated depreciation and amortisation			698
			6,137
Write-off of other receivables	1,178	28	1,206
Impairment loss on trade receivables			1,838

* Capital expenditure consist of additions to property, plant and equipment including assets from acquisition of subsidiaries (note 14 and 33).

4. OPERATING SEGMENT INFORMATION *(Continued)*

GEOGRAPHICAL INFORMATION

(a) REVENUE FROM EXTERNAL CUSTOMERS

The revenue information is based on the location of the customers.

Year ended 31 December 2009	**Hong Kong** *HK$'000*	**The PRC** *HK$'000*	**France** *HK$'000*	**Total** *HK$'000*
Segment revenue:				
Service income	**—**	**28,266**	**—**	**28,266**
Gross rental income	**—**	**3,826**	**—**	**3,826**
Sales of plastic recycling materials	**162,045**	**—**	**1,393**	**163,438**
	162,045	**32,092**	**1,393**	**195,530**

Year ended 31 December 2008	Hong Kong *HK$'000*	The PRC *HK$'000*	France *HK$'000*	Total *HK$'000*
Segment revenue:				
Service income	—	66,928	—	66,928
Gross rental income	—	11,855	—	11,855
Sales of plastic recycling materials	—	—	—	—
	—	78,783	—	78,783

4. OPERATING SEGMENT INFORMATION *(Continued)*

GEOGRAPHICAL INFORMATION *(Continued)*

(b) NON-CURRENT ASSETS

Year ended 31 December 2009	**Hong Kong** *HK$'000*	**The PRC** *HK$'000*	**France** *HK$'000*	**Total** *HK$'000*
Non-current assets	**73,352**	**—**	**113,819**	**187,171**

Year ended 31 December 2008	Hong Kong *HK$'000*	The PRC *HK$'000*	France *HK$'000*	Total *HK$'000*
Non-current assets	432,177	120,028	69,818	622,023

INFORMATION ABOUT A MAJOR CUSTOMER

Revenue of approximately HK$20,442,000 (2008: HK$21,996,000) was derived from sales to a single customer during the year ended 31 December 2009.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents service income from logistics and other services rendered, gross rental income and sales of plastic recycling materials during the year.

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

	2009 ***HK$'000***	2008 *HK$'000*
Revenue		
Service income	**28,266**	66,928
Gross rental income	**3,826**	11,855
Sales of plastic recycling materials	**163,438**	—
Total revenue	**195,530**	78,783
Other income and gains		
Bank interest income	**12**	171
Gain on disposal of subsidiaries (note 36)	**20,270**	—
Exchange gains, net	**3,012**	1,763
Write-back of other payables	**—**	545
Shortfall in profit of an associate guaranteed by an ex-joint venture partner	**—**	9,800
Others	**674**	214
Total other income and gains	**23,968**	12,493
Total revenue, other income and gains	**219,498**	91,276

6. LOSS BEFORE TAX

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

	2009 HK$'000	2008 HK$'000
Cost of services provided and goods sold*	**175,091**	51,095
Amortisation of prepaid land lease payments (note 15)	**459**	473
Depreciation of property, plant and equipment*(note 14)	**9,160**	5,664
Write-off of property, plant and equipment (note 14)	**5**	7,716
Minimum lease payments under operating leases: Land and buildings	**4,298**	4,606
Auditors' remuneration:		
Annual audit:		
Current year	**850**	750
Under-provision for the previous years	**—**	140
Other assurance services	**420**	—
	1,270	890
Impairment loss on trade receivables	**—**	1,838
Write-off of other receivables	**955**	1,206
Impairment loss on available-for-sales investments (note 22)	**922,318**	—
Staff costs (including directors' remuneration (note 8)):		
Wages and salaries	**28,689**	24,132
Equity-settled share option expenses (note 31)	**6,727**	—
Pension scheme contributions	**168**	179
	35,584	24,311
Exchange gains, net	**(3,012)**	(1,763)
Bank interest income	**(12)**	(171)

* The cost of services provided and goods sold included depreciation of property, plant and equipment of approximately HK$2,480,000 (2008: HK$2,552,000).

7. FINANCE COSTS

	2009 HK$'000	2008 HK$'000
Interest on bank advances and other borrowings wholly repayable within five years	**3,570**	5,359
Bank overdraft interest	**4**	3
Interest on other loans	**1,738**	882
Others	**285**	250
	5,597	6,494

8. DIRECTORS' REMUNERATION

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

	2009 HK$'000	2008 HK$'000
Fees	**1,272**	1,051
Other emoluments:		
Salaries, allowances and benefits in kind	**10,536**	3,896
Pension scheme contributions	**49**	60
Equity-settled share option expenses*	**5,786**	—
	16,371	3,956
	17,643	5,007

* During the year, the directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION *(Continued)*

Year ended 31 December 2009

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option expenses *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors					
Wong Kwan	—	1,800	562	12	2,374
Cheung Kwok Yu	—	1,216	562	12	1,790
Zheng Yingsheng	—	871	562	—	1,433
Zhou Li Yang	—	1,320	562	12	1,894
Johnny Yuen	—	300	562	12	874
Lew Mon Hung (appointed on 3 December 2009)	—	5,000	1,103	—	6,103
Chan Yiu Keung (resigned on 6 February 2009)	—	29	—	1	30
	—	10,536	3,913	49	14,498
Independent non-executive directors					
Fung Hing Chiu, Cyril	150	—	562	—	712
Lam Ka Wai, Graham	930	—	562	—	1,492
Yu Jian Meng (appointed on 19 September 2009)	67	—	187	—	254
Dong Zhixiong (resigned on 1 October 2009)@	125	—	562	—	687
	1,272	—	1,873	—	3,145
Total	1,272	10,536	5,786	49	17,643

8. DIRECTORS' REMUNERATION *(Continued)*

Year ended 31 December 2008

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option expenses *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Executive directors					
Wong Kwan	—	1,750	—	12	1,762
Cheung Kwok Yu	—	1,158	—	12	1,170
Zheng Yingsheng	—	412	—	—	412
Zhou Li Yang	—	576	—	12	588
Johnny Yuen	—	300	—	12	312
Chan Yiu Keung	—	300	—	12	312
	—	4,496	—	60	4,556
Independent non-executive directors					
Fung Hing Chiu, Cyril	150	—	—	—	150
Lam Ka Wai, Graham (appointed on 3 October 2008)	37	—	—	—	37
Dong Zhixiong	150	—	—	—	150
Lai Shi Hong, Edward (resigned on 3 October 2008)	114	—	—	—	114
	451	—	—	—	451
Total	451	4,496	—	60	5,007

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2008: Nil).

@ Dong Zhixiong was a director of the Company during the year. He resigned as a director and became a consultant of the Company effective from 1 October 2009 for two years.

8. DIRECTORS' REMUNERATION *(Continued)*

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

	Number of directors	
	2009	2008
Nil to HK$1,000,000	**5**	8
HK$1,000,001 to HK$2,000,000	**4**	2
HK$2,000,001 to HK$5,000,000	**1**	—
Over HK$5,000,000	**1**	—
	11	10

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2008: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two non-director, highest paid employees for the year ended 31 December 2008 are as follows:

	2009	2008
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**—**	1,104
Pension scheme contributions	**—**	24
	—	1,128

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

	Number of employees	
	2009	2008
Nil to HK$1,000,000	**—**	2

10. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 December 2008. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2009	2008
	HK$'000	*HK$'000*
Current tax:		
Hong Kong profits tax	**319**	—
PRC corporate income tax	**—**	1
Deferred tax: (note 29)		
Overprovision of deferred tax assets in prior years	**—**	1,419
Tax charge for the year	**319**	1,420

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

	2009		2008	
	HK$'000	***%***	*HK$'000*	*%*
Loss before tax	**(967,643)**		(39,845)	
Tax at statutory tax rate	**(162,815)**	**16.8**	(9,724)	(24.4)
Tax effect of share of profit and losses of an associate	**90**	**—**	3,917	10.0
Income not subject to tax:				
Gain on disposal of subsidiaries	**(3,344)**	**0.3**	—	—
Others	**(389)**	**—**	(8,348)	(20.9)
Expenses not deductible for tax:				
Impairment loss on available-for-sales investments	**152,182**	**(15.7)**	—	—
Others	**7,412**	**(0.7)**	7,388	18.4
Tax losses not yet recognised	**7,183**	**(0.7)**	6,768	16.9
Overprovision for deferred tax assets in prior years	**—**	**—**	1,419	3.6
Tax charge at the Group's effective rate	**319**	**—**	1,420	3.6

11. DIVIDENDS

The Directors did not recommend a final dividend for the year ended 31 December 2009 (2008: Nil).

12. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2009 includes a loss of HK$546,417,000 (2008: HK$10,624,000) which has been dealt with in the financial statements of the Company.

13. LOSS PER SHAER ATTRIBUTABLE TO ORIDINARY EQUITY HOLDERS OF THE COMPANY

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

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2008 and 2009 in respect of a dilution as the impact of share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic loss per share are based on:

	2009	2008
	HK$'000	*HK$'000*
Earnings		
Loss attributable to equity holders of the Company, used in the basic loss per share calculation	**566,840**	38,310

	Number of shares (thousand)	
	2009	2008
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation:		
Issued ordinary shares at 1 January	**447,182**	383,059
Effect of shares issued during the year	**199,763**	64,123
	646,945	447,182

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Freehold land HK$'000	Leasehold improvements HK$'000	Furniture fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2009						
At 1 January 2009:						
Cost or valuation	120,937	4,555	1,270	54,486	2,121	183,369
Accumulated depreciation and impairment	(2,597)	—	(845)	(13,840)	(756)	(18,038)
Net carrying amount	118,340	4,555	425	40,646	1,365	165,331
At 1 January 2009, net of accumulated depreciation and impairment	118,340	4,555	425	40,646	1,365	165,331
Additions	27	—	—	4,646	—	4,673
Disposal of subsidiaries (note 36)	(85,312)	—	(257)	(11,946)	(840)	(98,355)
Written off	—	—	—	(5)	—	(5)
Depreciation provided during the year	(3,571)	—	(119)	(5,154)	(316)	(9,160)
Exchange realignment	1,623	(61)	4	411	4	1,981
At 31 December 2009, net of accumulated depreciation and impairment	31,107	4,494	53	28,598	213	64,465
At 31 December 2009:						
Cost or valuation	32,278	4,494	85	31,006	446	68,309
Accumulated depreciation and impairment	(1,171)	—	(32)	(2,408)	(233)	(3,844)
Net carrying amount	31,107	4,494	53	28,598	213	64,465
Analysis of cost or valuation:						
At cost	32,278	4,494	85	31,006	446	68,309
At valuation	—	—	—	—	—	—
	32,278	4,494	85	31,006	446	68,309

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

Group *(Continued)*

	Buildings HK$'000	Freehold land HK$'000	Leasehold improvements HK$'000	Furniture fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2008						
At 1 January 2008:						
Cost or valuation	85,121	—	1,471	27,227	1,449	115,268
Accumulated depreciation	—	—	(944)	(13,698)	(470)	(15,112)
Net carrying amount	85,121	—	527	13,529	979	100,156
At 1 January 2008, net of accumulated depreciation	85,121	—	527	13,529	979	100,156
Additions	1,148	—	132	1,529	890	3,699
Acquisition of subsidiaries (note 33(b))	27,312	4,117	—	32,924	—	64,353
Disposals	—	—	(57)	(237)	(132)	(426)
Written off	—	—	—	(7,716)	—	(7,716)
Depreciation provided during the year	(2,609)	—	(199)	(2,442)	(414)	(5,664)
Exchange realignment	7,368	438	22	3,059	42	10,929
At 31 December 2008, net of accumulated depreciation and impairment	118,340	4,555	425	40,646	1,365	165,331
At 31 December 2008:						
Cost or valuation	120,937	4,555	1,270	54,486	2,121	183,369
Accumulated depreciation and impairment	(2,597)	—	(845)	(13,840)	(756)	(18,038)
Net carrying amount	118,340	4,555	425	40,646	1,365	165,331
Analysis of cost or valuation:						
At cost	31,485	4,555	1,270	54,486	2,121	93,917
At valuation	89,452	—	—	—	—	89,452
	120,937	4,555	1,270	54,486	2,121	183,369

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

Group *(Continued)*

Notes:

(a) The Group's buildings located in the PRC had been disposed of through the disposal of subsidiaries (note 36) during the year.

(b) The carrying amount of the Group's buildings at 31 December 2009 would have been HK$Nil (2008: HK$92,030,000) had they been stated at cost less accumulated depreciation.

(c) At 31 December 2008, certain of the Group's buildings situated in the PRC with an aggregate carrying value of HK$86,896,000 together with the Group's prepaid land lease payments of HK$19,341,000 (note 15) were pledged to secure the bank loans granted to the Group (note 27). The pledged buildings and prepaid land lease payments were disposed of through the disposal of the related subsidiary during the year (note 36) and the pledge has therefore been released.

(d) The Group's freehold land is located in France.

15. PREPAID LAND LEASE PAYMENTS

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
Carrying amount at beginning of year	**19,341**	18,855
Amortisation during the year	**(459)**	(473)
Exchange realignment	**200**	959
Disposal of a subsidiary during the year (note 36)	**(19,082)**	—
Carrying amount at 31 December	**—**	19,341
Current portion included in prepayments, deposits and other receivables	**—**	(473)
Non-current portion	**—**	18,868
Analysed into:		
Situated in the PRC under a medium term lease	**—**	19,341

At 31 December 2008, certain of the Group's the prepaid land lease payments of HK$19,341,000 together with the Group's buildings situated in the PRC with an aggregate carrying value of HK$86,896,000 (note 14) were pledged to secure the bank loans granted to the Group (note 27). The pledged buildings and prepaid land lease payments were disposed of through the disposal of subsidiaries during the year (note 36) and the pledge has therefore been released.

16. GOODWILL

Group

	HK$'000
At 31 December 2008:	
Cost at 1 January 2008, net of accumulated impairment	—
Acquisition of a subsidiary (note 33(b))	16,921
At 31 December 2008	16,921
At 31 December 2008:	
Cost	16,921
Accumulated impairment	—
Net carrying amount	16,921
At 31 December 2009:	
Cost at 1 January 2009, net of accumulated impairment	**16,921**
Acquisition of minority interests (note 34)	**42,985**
Acquisition of a business (note 35)	**62,039**
Cost and carrying amount at 31 December 2009	**121,945**
At 31 December 2009:	
Cost	**121,945**
Accumulated impairment	**—**
Net carrying amount	**121,945**

IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations and acquisition of a business has been allocated to the relevant cash-generating units for impairment testing as follows:

	HK$'000
Carrying amount of goodwill relevant to the processing and sales of plastic recycling material in the ERC Group	59,906
Carrying amount of goodwill relevant to the processing and sales of plastic recycling material in the IBE Group	62,039
	121,945

16. GOODWILL *(Continued)*

PROCESSING AND SALES OF PLASTIC RECYCLING MATERIALS IN THE ERC GROUP

The recoverable amount of the processing and sales of plastic recycling materials in the ERC Group cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17% (2008:19%) and cash flows beyond the five-year period are extrapolated using a growth rate which does not exceed the long term average growth rate of the processing and sales of plastic recycling materials industry.

Key assumptions were used in the value in use calculation of the processing and sales of plastic recycling materials in the ERC Group cash-generating unit for 31 December 2008 and 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

	2009	2008
	%	%
Gross margin	**40**	40
Growth rate	**43**	43
Discount rate	**17**	19

Management determined the budgeted gross-margin based on past performance and its expectation for market development. The weighted average growth rates used are based on the industry research. The discount rates used are pre-tax that reflected current market assessments of the time value of money and the risks specific risks relating to the relevant segments.

PROCESSING AND SALES OF PLASTIC RECYCLING MATERIALS IN THE IBE GROUP

The recoverable amount of the processing and sales of plastic recycling materials in the IBE Group cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12% (2008: N/A) and cash flows beyond the five-year period are extrapolated using a growth rate which does not exceed the long term average growth rate of the processing and sales of plastic recycling materials industry.

Key assumptions were used in the value in use calculation of the processing and sales of plastic recycling materials in the IBE cash-generating unit for 31 December 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

	2009
	%
Gross margin	**7**
Growth rate	**5**
Discount rate	**12**

Management determined the budgeted gross-margin based on past performance and its expectation for market development. The weighted average growth rates used are based on the industry research. The discount rates used are pre-tax that reflected current market assessments of the time value of money and the specific risks relating to the relevant segments.

17. INTERESTS IN SUBSIDIARIES

	Company 2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	—	—
Due from subsidiaries	726,156	527,076
	726,156	—
Less: Impairment	(513,736)	—
	212,420	527,076

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

Particulars of the principal subsidiaries of the Company are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Champion Merry Investment Limtied	The British Virgin Islands (the "BVI")	US$1	—	100%	Investment holding
China Coal Energy Holdings Limited (note (a))	Hong Kong	HK$100,000,000	—	55.11%	Coal gasification and coal mining
China Environmental Resources Limited	Hong Kong	HK$10,000	—	60%	Investment holding
Exploitation Ressources Internationales, S.A. #	France	EURO153,800	—	60%	Plastic recycling
Euro Resources China Limited	Hong Kong	HK$10,000	—	60%	Investment holding
Get Wealthy Investments Limited	BVI	US$1	—	100%	Investment holding
Grand Huge International Limited	Hong Kong	HK$10,000	—	100%	Provision of corporate services
IB Environmental Plastic Limited	Hong Kong	HK$1	—	60%	Plastic recycling
Pearl Oriental International Assets Limited	Hong Kong	HK$1	—	100%	Provision of corporate services

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
PO (SZ) Logistics Limited	BVI	US$1	—	100%	Provision of logistics
Pearl Oriental Logistics (Shenzhen) Limited# (note (b))	The People's Republic of China (the "PRC")	US$400,000	—	100%	Provision of logistics services
Pearl Oriental Logistics Sino Limited	Hong Kong	HK$22,000,000	—	60%	Investment holding
Wuhan Pearl Oriental Logistics Limited (note (b))	The PRC	RMB4,007,157	—	60%	Provision of logistics services

Not audited by Ascenda Cachet CPA Limited (formerly Cachet Certified Public Accountants Limited)

Note a: This subsidiary was acquired by the Company during the year, details of which are set out in note 33(a) to the financial statements.

Note b: These subsidiaries are registered as a Sino-foreign investment enterprise under the PRC laws.

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

18. INTERESTS IN AN ASSOCIATE

	Group 2009 HK$'000	2008 HK$'000
Share of net assets	—	365,012
Goodwill arising from acquisition	—	55,891
	—	420,903
Due from associates	—	5,593
	—	426,496

The amount due from the associate was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the Group's interests in the associate are as follows:

Name	Place of incorporation/ registration and operations	Particular of issued shares held	Percentag of ownership interest attributable to the Group	Principal activities
China Coal Energy Holdings Limited ("China Coal")	Hong Kong	HK$100,000,000	55.11% (2008: 39.93%)	Coal gasification and coal mining

During the year, the Company further acquired from independent third parties an aggregate of 15.18% equity interests in China Coal through the acquisition of the 100% equity interests in Get Wealthy Investments Limited ("Get Wealthy") (which holds 15% equity interests in China Coal) and the remaining 0.18% equity interests in China Coal. Upon the completion of which on 15 July 2009, China Coal became an indirect non-wholly-owned subsidiary of the Company. These interests in the associate have therefore formed part of the consideration of the acquisition of Get Wealthy/China Coal as set out in note 33(a) to the financial statements.

	HK$'000
Balance of interests in an associate at 1 January 2009	420,903
Shares of losses of China Coal during the period from 1 January 2009 to 14 July 2009	(548)
	420,355
Transfer to form part of the consideration of the acquisition of Get Wealthy/China Coal (note 33(a))	(420,355)
Balance of interests in an associate at 31 December 2009	—

18. INTERESTS IN AN ASSOCIATE *(Continued)*

The following table illustrated the summarised financial information of China Coal extracted from their financial statements for the year ended 31 December 2008:

	2008 *HK$'000*
Revenue	—
Loss for the year	(9,101)
Available-for-sale investments	944,312
Other assets	9
Total assets	944,321
Total liabilities	(31,907)
Net assets	912,414

19. INVENTORIES

	Group 2009 HK$'000	Group 2008 HK$'000
Raw materials	**8,707**	9,083

20. TRADE RECEIVABLES

	Group 2009 HK$'000	Group 2008 HK$'000
Trade receivables	**9,142**	13,130
Less: Impairments	**(2,943)**	(2,880)
	6,199	10,250

At 31 December 2008, included in the trade receivables were receivables of a then subsidiary of the Group in the amount of approximately RMB372,000 (equivalents to approximately HK$420,000) (note 27(d)) pledged to a bank as securities for the bank loan granted to the then subsidiary of the Group, which was disposed of during the year (note 36).

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

An aged analysis of the trade receivables as at the end of reporting period, based on the invoice date, is as follows:

	Group 2009 HK$'000	Group 2008 HK$'000
Less than 3 months	**5,995**	9,063
3 months to 6 months	**96**	194
6 months to 12 months	**108**	993
	6,199	10,250

20. TRADE RECEIVABLES *(Continued)*

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

	Group	
	2009	2008
	HK$'000	*HK$'000*
At beginning of year	**2,880**	1,042
Impairment loss recognised	**—**	1,838
Exchange realignment	**63**	—
At end of year	**2,943**	2,880

At 31 December 2009, the Group's trade receivables of HK$1,838,000 (2008: HK$1,838,000) were individually determined to be impaired with a carrying amount before provision of HK$1,838,000 (2008: HK$1,838,000). The Group does not hold any collateral over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Neither past due nor impaired	**5,995**	9,063
3 to 6 months past due	**96**	194
6 to 12 months past due	**108**	993
	6,199	10,250

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current portion of prepaid land lease payments (note 15)	**—**	473	**—**	—
Prepayments	**948**	3,277	**—**	—
Rental and other deposits paid (note (a))	**2,756**	4,519	**—**	—
Security deposits for the legal case (note (b))	**10,446**	—	**10,446**	—
Trade deposits (note (c))	**32,702**	—	**—**	—
Other receivables	**669**	2,926	**238**	80
	47,521	11,195	**10,684**	80

Notes:

(a) Include in the rental and other deposits is a deposit of RMB1,650,000 (equivalent to approximately HK$1,725,000) (2008: RMB1,500,000 (equivalent to approximately HK$1,692,000)) paid in respect of a proposed acquisition undertaken by Euro Resources China Limited ("ERC"), which was a 60%-owned subsidiary as at 31 December 2009. On 14 July 2007, ERC entered into a conditional sale and purchase agreement with an independent third party, Mr. He Zhaorong ("Mr. He"), in relation to the acquisition of a 60% equity interest in Foshan Shunde Euro Resources Wanhai Manufacturing Limited ("Foshan") at a total consideration of RMB9,000,000 (equivalent to HK$$10,153,800).

On the same day, ERC further entered into a supplemental agreement with Mr. He, pursuant to which, ERC paid a deposit of RMB1,500,000 (equivalent to HK$1,692,000) to Mr. He in respect of the proposed acquisition.

On 25 March 2009, ERC entered into a supplemental agreement with Mr. He, pursuant to which, the completion date of the proposed acquisition has been extended to 31 March 2011. During the year, a further amount of RMB150,000 (equivalent to approximately HK$170,000) was paid by the Group.

As at 31 December 2009 and 2008, the Group had a capital commitment of RMB7,350,000 (equivalent to approximately HK$8,352,000 (2008: RMB7,500,000 (equivalent to approximately HK$8,461,000)) (note 39) in respect of the outstanding purchase consideration.

(b) During the year, the Company paid a sum of HK$10,446,000 to the Court as the security for payment of judgement debt and the plaintiffs' cost in respect of the legal claims with the ex-directors of a disposed subsidiary. Further details are set out in note 41(c) to the financial statements.

(c) The trade deposits paid of HK$32,702,000 as at 31 December 2009 represented the purchase deposits paid to the suppliers. The related goods were received by the Group subsequent to the end of reporting period in January 2010.

None of the above assets is either past due or impaired.

22. AVAILABLE-FOR-SALES INVESTMENTS

The available-for-sales investments grouped in current assets are as follows:

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Equity securities, at cost:				
Balance at 1 January	**12,412**	12,412	**12,412**	12,412
Written off during the year	**(12,412)**	—	**(12,412)**	—
Balance at 31 December	**—**	12,412	**—**	12,412
Impairments:				
Balance at 1 January	**12,412**	12,412	**12,412**	12,412
Written off during the year	**(12,412)**	—	**(12,412)**	—
Balance at 31 December	**—**	12,412	**—**	12,412
Net carrying value	**—**	—	**—**	—

The above investment represents certain equity securities of China Technology Global Corporation which were designated as available-for-sale financial assets on 1 January 2005. The securities have been fully impaired because China Technology Global Corporation was de-listed from the Over-The-Counter Bulletin Board of the United States of America in 2006. The above investment was written-off during the year as the directors were of the opinion that there is unlikely an recover of the investment.

The available-for-sales investments grouped in non-current assets are as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Unlisted equity investment at cost (note 33)	**922,318**	—
Impairment	**(922,318)**	—
Net carrying value	**—**	—

The non-current available-for-sales investments represented an 100% equity interests in Taiyuan Sanxing Coal Gasification (Group) Co., Limited (太原市三興煤炭氣化有限公司) ("Taiyuan Sanxing") held by China Coal.

22. AVAILABLE-FOR-SALES INVESTMENTS *(Continued)*

As at 31 December 2008, the Group had 39.93% equity interest in China Coal and classified as "Interests in an associate" (note 18) and shared its results during that year. As detailed in note 33(a) to the financial statements, the Group has further acquired from independent third parties an aggregate of 15.18% equity interest in China Coal through the acquisition of the entire equity interests in Get Wealthy Investments Limited (which holds 15% equity interests in China Coal) and the remaining equity interest in China Coal at an aggregate consideration of HK$58,000,000. Upon the completion of the acquisition, the Group's equity interest in China Coal increased from 39.93% to 55.11% and the Group obtained control over the financial and operating policies of China Coal. China Coal became an indirect non-wholly-owned subsidiary of the Company which has an effective equity interest of 55.11%. China Coal's results have been equity picked-up until 14 July 2009 and fully consolidated into the Group's consolidated financial statements since 15 July 2009.

The principal activity of China Coal is investment holding and the principal asset of China Coal is an 100% equity interest in Taiyuan Sanxing. Taiyuan Sanxing was established in the PRC with limited liabilities and the Taiyuan Sanxing Group is principally engaged in the coal gasification and coal mining. The principal assets of Taiyuan Sanxing and its subsidiary Shanxi Sanxing Coal and Coke Limited (山西三興煤焦有限公司) ("Shanxi Sanxing") (collectively, the "Taiyuan Sanxing Group") are certain coal mines.

Pursuant to a conditional agreement dated 15 July 2006 between the Company and Mr. Zhang Jingyuen (formerly known as "Zhang Genyu") ("Mr. Zhang") (張景淵), Mr. Zhang has guaranteed the Company that the audited net profit of China Coal determined in accordance with HKFRSs for the three financial years ended 31 December 2009 should in aggregate be not less than HK$600,000,000. Should the aggregate audited net profit of China Coal fall below HK$600,000,000, Mr. Zhang will pay the shortfall to the Company on a dollar-to-dollar basis after the issuance of China Coal's audit reports for the three financial years ended 31 December 2009. Mr. Zhang had pledged all his 44.89% equity interests in China Coal (the "Share Pledge") as collateral for his performance under the Profit Guarantee in a the deed of charge dated 25 October 2006 (the "Deed of Charge").

As announced by the Company on 12 August 2008, on 7 August 2008, Mr. Zhang issued and served a writ (the "Writ") in the High Court of Hong Kong against, inter alia, the Company, Get Wealthy Investment Limited ("Get Wealthy"), Champion Merry Investment Limited ("Champion", a subsidiary of the Company) and Mr. Wong Kwan, Chairman, Chief executive, executive director and also a major shareholder of the Company, in which Mr. Zhang claimed, inter alias, against the Company and Champion for damages for alleged breaches of a joint venture agreement dated 15 July 2006 (the "Joint Venture Agreement"), and Mr. Zhang also applied for an order that the Joint Venture Agreement and the Deed of Charge be rescinded.

After considering the opinion from the Company's legal advisors in Hong Kong, the directors are of the opinion that all the claims in the Writ are of no substance and groundless, and the directors will strongly defend and has confidence to defeat such claims and the Company has issued counter claim against Mr. Zhang, including without limitation, the dividend from China Coal of HK$80,000,000, damages for breaches of the Joint Venture Agreement and other relief.

The Group and the other defendants have made applications for striking out of Mr. Zhang's claims against the Group and the other defendants and also a summary judgment for counterclaims against Mr. Zhang for dividend from China Coal of HK$80,000,000 and other damages. The applications have been dismissed by the Court with costs, and the parties to the legal action would proceed to trial on dates to be fixed. After consultation with the Company's legal advisors, the directors are confident that the Group's rights and interests can be fully protected during the coming trial.

22. AVAILABLE-FOR-SALES INVESTMENTS *(Continued)*

In addition to the above:

i) Zhang Xinyu obtained a judgment (the "Judgment") on 10 November 2008 from the Taiyuan Intermediate People's Court（太原市中級人民法院）against Taiyuan Sanxing, inter alia, that:

1. an agreement (the "December 2006 Agreement") entered into among Zhang Xinyu, Mr. Zhang and Taiyuan Sanxing on 28 December 2006 in relation to the capital injection and transfer of equity interests in Shanxi Sanxing from Mr. Zhang and Zhang Xinyu to Taiyuan Sanxing should be cancelled; and

2. after the Judgment becomes effective, Shanxi Sanxing has to be restored to the original situation before the December 2006 Agreement, and all shares in Shanxi Sanxing have to be transferred back to Zhang Xinyu and Mr. Zhang.

Zhang Xinyu is the younger brother of Mr. Zhang and the chairman of board, a director and also the legal representative of Taiyuan Sanxing. Unknown to the Company, Zhang Xinyu has instituted the above legal proceedings (the "Legal Proceedings") against Taiyuan Sanxing in the Taiyuan Intermediate People's Court, and the Legal Proceedings have been wilfully concealed to the Company and China Coal. China Coal has made an application for an appeal to the judgement.

22. Available-for-sales Investments *(Continued)*

ii) Subsequent to the acquisition of the additional 15.18% equity interest in China Coal, it came to the attention of the Company's directors that there is a dispute over the title of the mining permit of a coal mine located at 山西省臨縣林家坪鎮白家峁村 (the "Coal Mine") owned by Shanxi Sanxing. In particular, （山西省臨縣林家坪鎮白家峁村民委員會）(the "Village") has sued the Department of Land and Resources, Shanxi Province（山西省國土資源廳）in the People's Intermediate Court of Taiyuan（太原市中級人民法院）and claimed that the Department of Land and Resources, Shanxi Province（山西省國土資源廳）has wrongfully transferred the title of the Coal Mine from the Village to Shanxi Sanxing and to obtain an administrative judgment of revoking such change. The Company understands that the Department of Land and Resources, Shanxi Province（山西省國土資源廳）has filed its appeal against the judgment but the appeal has been dismissed by the People's High Court of Shanxi Province（山西省高級人民法院）in October 2009. As a result of the judgment, the transfer of the title of the Coal Mine to Shanxi Sanxing in April 2002 has been confirmed as an illegal administrative action, and the mining permit of Shanxi Sanxing issued by the Department of Land and Resources, Shanxi Province（山西省國土資源廳）in December 2006 has been cancelled.

According to the legal advice of the Company's PRC lawyers, the Company and China Coal, as the controlling stakeholder of Taiyuan Sanxing and the Coal Mine, have paid genuine consideration as bona fide purchasers and the investments have been approved by the Department of Commerce, Shanxi Province（山西省商務廳）, the Department of Land and Resources, Shanxi Province（山西省國土資源廳）and the Department of Industrial and Commercial Administration, Shanxi Province（山西省工商行政管理局）, therefore the investments should be protected by the PRC laws. They have relied on the legality of Shanxi Sanxing as the registered owner of the title of the Coal Mine according to the records in the Department of Land and Resources, Shanxi Province（山西省國土資源廳）, the Department of Commerce Shanxi Province（山西省商務廳）and the Department of Industrial and Commercial Administration, Shanxi Province（山西省工商行政管理局）. The Company has already taken immediate steps and measures including but not limited to the reporting to the People's Government of Shanxi Province（山西省人民政府）, the People's High Court of Shanxi Province（山西省高級人民法院）, the Department of Commerce, Shanxi Province（山西省商務廳）and the Department of Land and Resources, Shanxi Province（山西省國土資源廳）to request suspension of execution of the administrative judgment made by the People's High Court of Shanxi Province（山西省高級人民法院）and also requesting the case be fairly handled in accordance with the laws and facts in order to protect its rights and interests in the Coal Mine. The Company also indicates that it will reserve its rights of taking necessary legal actions against the relevant government authorities of Shanxi Province for compensations should the Company incur any damages suffered from loss of the title of the Coal Mine as a result of the issue being not resolved reasonably and lawfully by the government of Shanxi Province.

22. AVAILABLE-FOR-SALES INVESTMENTS *(Continued)*

iii) Since Zhang Xinyu, Mr. Zhang, Gao Shanhe, Zhang Zhenwu and Wang Jifeng (the directors of Taiyuan Sanxing) have refused to execute the resolutions of China Coal, the sole shareholder of Taiyuan Sanxing, refused to account for profits of Taiyuan Sanxing, obviously failed to perform their fiduciary duties as directors of Taiyuan Sanxing and also caused damages to lawful rights and interests of China Coal as a foreign investors, China Coal has therefore issued a writ against them in the People's High Court of Shanxi Province（山西省高級人民法院）to claim for damages against breaches of their fiduciary duties and their conducts amounted to wilful embezzling of assets of Taiyuan Sanxing which are clearly contrary to the laws of the PRC.

Because of the above legal claims between the Company and Mr. Zhang, China Coal had not been provided with the operating and financing information of Taiyuan Sanxing since 1 January 2008 and China Coal was unable to exercise its powers on the financial and operating matters of Taiyuan Sanxing. The loss of the operating and financing control over Taiyuan Sanxing had become apparent to China Coal's board of directors because the legal representative, directors and senior management of Taiyuan Sanxing were either appointed based on the recommendation of Mr. Zhang and/or ex-senior management of Taiyuan Sanxing prior to the Group's acquisition of the present equity interests in China Coal and therefore in Taiyuan Sanxing. Following all the shareholders of China Coal except Mr. Zhang had become aware of the loss of control over Taiyuan Sanxing, the board of directors of China Coal had passed certain key resolutions demanding structural reform to the board of directors of Taiyuan Sanxing. However, due to the above management structure unfavourable to the Group, those board resolutions of China Coal cannot be executed on or by Taiyuan Sanxing. As a result of the loss of control or significant influence over Taiyuan Sanxing, China Coal's equity interests in Taiyuan Sanxing were reclassified as an available-for-sales investment at its carrying value during the year ended 31 December 2008.

The Group, through China Coal, has taken the necessary legal actions to protect China Coal's investment in Taiyuan Sanxing. However, based on the legal advice, the directors of the Company may not be able to obtain a favourable judgement in the litigations.

In view of the above litigations and the inability of China Coal to deal with its interests in Taiyuan Xinsang as well as the significant deterioration of the Taiyuan Sanxing Group's operations and assets, particularly as evidenced by the cancellation of the title of the Coal Mine, a full provision of impairment loss of approximately HK$922,318,000 on the available-for-sales-investment in Taiyuan Sanxing was made by the Group during the year ended 31 December 2009, in which an amount of approximately HK399,094,000 was attributable to its minority interests.

23. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES - GROUP

At 31 December 2008, the amounts due to certain then minority shareholders of subsidiaries were unsecured and interest-free and of which HK$5,167,000 had no fixed repayment terms, and the remaining balance of HK$16,337,000 which was not repayable within the one year after the end of the reporting period.

At 31 December 2009, the amounts due to minority shareholders of subsidiaries of approximately HK$6,012,000 have been reclassified as other payables upon the acquisition of the minority interests of a subsidiary (note 26(a)(ii)). In addition, the amounts due to minority shareholders of subsidiaries of approximately HK$11,496,000 has been acquired by the Group (note 34). The remaining balance of HK$3,996,000 was derecognised from the Group upon the disposal of subsidiaries (note 36).

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**224,314**	15,787	**206,624**	8,882

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$3,975,000 (2008: approximately HK$3,298,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

At the end of reporting period, certain bank deposits of the Group amounting to approximately HK$1,127,000 (2008: approximately HK$1,113,000) was freezed.

25. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Current – 3 months	**3,622**	4,136
3 months – 6 months	**—**	548
6 – 12 months	**—**	3,270
Over 1 year	**2,078**	813
	5,700	8,767

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

26. Other Payables and Accruals

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**5,372**	2,292	**—**	—
Accruals	**13,815**	17,579	**4,073**	2,003
Due to former shareholders of subsidiaries (note (a))	**29,412**	—	**—**	—
Trade deposit deposit received (note (b))	**3,007**	—	**—**	—
Deposit received (note (b))	**90**	15	**—**	—
	51,696	19,886	**4,073**	2,003

Notes:

(a) As at 31 December 2009, the amounts due to certain former shareholders of subsidiaries of HK$29,411,000 represented:

(i) approximately HK$23,400,000 due to Favour Good Investments Limited, which was unsecured, bear interest rate at 6% per annum and repayable in December 2010; and

(ii) approximately HK$6,012,000 due to Kong Rise Limited, which was unsecured, interest-free and has no fixed terms of repayments.

(b) The trade deposits received of approximately HK$3,007,000 as at 31 December 2009 represented sales deposits received from the customers. The related goods were delivered by the Group to the customers subsequent to the end of reporting period in January 2010.

27. INTEREST-BEARING BANK BORROWINGS, SECURED

	Effective interest rate (%)	Maturity	Group 2009 HK$'000	Group 2008 HK$'000
Bank loans – secured	Prime rate	2014	—	60,370
Bank overdrafts – secured	Prime rate	On demand	—	10
			—	60,380
Analysed into:				
Bank loans repayable:				
Within one year or on demand			—	8,382
In the second year			—	8,922
In the third to fifth years, inclusive			—	31,099
Beyond five years			—	11,977
Total			—	60,380
Current portion			—	(8,382)
Non-current portion			—	51,998

The Company's banking facilities as at 31 December 2008 were secured by:

(a) a charge on the premises of the Group's leasehold building of HK$86,896,000 (note 14), together with the prepaid land lease payments HK$19,341,000 (note 15), which were situated in the PRC.

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

(c) the Group's banking facilities were subject to the fulfilment of covenants relating to certain capital requirements, as were commonly found in lending arrangements with financial institutions. If the Group breach the covenants, the drawn down facilities would become payable on demand. As at 31 December 2008, none of the covenants relating to the drawn down facilities had been breached.

(d) a charge on the trade receivables of Pearl Oriental Warehouse (Shenzhen) Limited, a wholly owned subsidiary of the Company, of approximately RMB372,000 (equivalents to HK$420,000)).

Upon the disposal of subsidiaries during the year (note 36), the corporate guarantees given by the Company and a subsidiary of the Company were released by the bank.

28. Loan from Immediate Parent and Ultimate Controlling Party

	Group		Company	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current portion (note (i))	**4,910**	—	**3,112**	—
Non current portion (note (ii))	**66,300**	25,000	**66,300**	25,000
	71,210	25,000	**69,412**	25,000

On 5 September 2008, the Company entered into a loan facility agreement with Orient Day Development Limited (Orient Day"), the immediate parent and ultimate controlling party of the Company, for the grant of a loan facility of not exceeding HK$25,000,000 by Orient Day to the Company.

The total amount of HK$25,000,000 has been drawn down by the Company during the year ended 31 December 2008 and remained outstanding as at 31 December 2008. The loan was unsecured and bored interest at the Hong Kong Prime Rate as quoted by the Hong Kong and Shanghai Banking Corporation ("HSBC Prime rate") from time to time. On 4 March 2009, the Company entered into a conditional subscription agreement with Orient Day, pursuant to which, the loan was settled as part of the proceeds for the issue of convertible notes to Orient Day during the year (note 30(a)(iv)).

As at 31 December 2009, the loan from immediate parent and ultimate controlling party of HK$71,210,000 represented:

(i) a loan with an aggregate amount of approximately HK$4,910,000 granted by Orient Day during the year with the following terms:

- approximately HK$3,112,000 advanced to the Company, which was unsecured, bored interest at HSBC Prime Rate from time to time and had no fixed repayment terms, and;
- approximately HK$1,798,000 advanced to a subsidiary of the Group, which was unsecured, interest-free and had no fixed repayment terms.

These loans were fully settled subsequent to the end of the reporting period in February 2010.

(ii) An amount of HK$66,300,000 representing the amounts received for the subscription of the Company's shares by Orient Day. The subscription was completed subsequent to the end of the reporting period in January 2010, details of which are set out in note 42 to the financial statements.

29. DEFFRRED TAX ASSETS

	Group	
	2009	2008
	HK$'000	*HK$'000*
At the beginning of year	—	1,419
Deferred tax charged to the income statement during the year (note 10)	—	(1,419)
Gross deferred tax assets at 31 December	—	—

At 31 December 2009, the Group had unused tax losses of approximately HK$23,414,000 (2008: 36,018,000) available for offset against future profits for a period of five years. During the year, no unrecognised tax losses have expired. No deferred tax asset has been recognised in respect of such losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2009, the Group did not have any significant deductible temporary differences (2008: Nil).

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

30. SHARE CAPITAL

(a) SHARES

	2009 HK$'000	2008 HK$'000
Authorised:		
200,000,000,000 ordinary shares of HK$0.10 each	**20,000,000**	20,000,000
Issued and fully paid:		
1,159,216,960 ordinary shares of HK$0.10 each (2008: 464,737,960 shares of HK$0.10)	**115,922**	46,474

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

	Authorised			
	Ordinary shares of HK$0.10 each		Ordinary shares of HK$0.5 each	
	Number of shares '000	HK$'000	Number of shares '000	HK$'000
At 1 January 2008	—	—	600,000	300,000
Increase in authorised share capital:				
Capital restructuring (note (i))	—	—	5,400,000	2,700,000
Capital reduction (note (ii))	6,000,000	600,000	(6,000,000)	(3,000,000)
Increase in authorised share capital (note (iii))	194,000,000	19,400,000	—	—
At 31 December 2008 and 2009	200,000,000	20,000,000	—	—

30. SHARE CAPITAL *(Continued)*

(a) SHARES *(Continued)*

	Issued and fully paid					
	Ordinary shares of HK$0.10 each		Ordinary shares of HK$0.5 each			
	Number of shares *'000*	*HK$'000*	Number of shares *'000*	*HK$'000*	Share premium account *HK$'000*	Total *HK$'000*
At 1 January 2008	—	—	387,281	193,641	346,510	540,151
Issues of new shares (note(i))	—	—	77,456	38,728	38,728	77,456
Share issue expenses	—	—	—	—	(330)	(330)
Capital reduction (note (ii))	464,737	46,474	(464,737)	(232,369)	—	(185,895)
At 31 December 2008	464,737	46,474	—	—	384,908	431,382
At 1 January 2009	**464,737**	**46,474**	**—**	**—**	**384,908**	**431,382**
Issue of new shares						
In May 2009 (note (iv))	**116,666**	**11,667**	**—**	**—**	**23,333**	**35,000**
In July 2009 (note (vi))	**145,000**	**14,500**	**—**	**—**	**55,100**	**69,600**
In July 2009 (note (iv))	**33,333**	**3,333**	**—**	**—**	**6,667**	**10,000**
In October 2009 (note (v))	**50,000**	**5,000**	**—**	**—**	**15,000**	**20,000**
In October 2009 (note (vii))	**200,000**	**20,000**	**—**	**—**	**94,000**	**114,000**
In December 2009 (note (viii))	**115,680**	**11,568**	**—**	**—**	**106,426**	**117,994**
Share issue expenses	**—**	**—**	**—**	**—**	**(530)**	**(530)**
In December 2009 (note (v))	**25,000**	**2,500**	**—**	**—**	**7,500**	**10,000**
Share options exercised (note (ix))	**8,800**	**880**	**—**	**—**	**5,697**	**6,577**
At 31 December 2009	**1,159,216**	**115,922**	**—**	**—**	**698,101**	**814,023**

Notes:

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

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

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

30. SHARE CAPITAL *(Continued)*

(a) SHARES *(Continued)*

Notes: *(Continued)*

(iv) In March 2009, Orient Day and the Company entered into an subscription agreement (the "First Subscribtion Agreement") in relation to the proposed issue of convertible notes (the "First Convertible Notes") by the Company to Orient Day. The First Convertible Notes consist of two tranches and the total principal amount is up to HK$45,000,000. The First Convertible Notes are convertible into new ordinary shares of the Company at a conversion price of HK$0.30 per ordinary share, resulting in the issue of an aggregate of up to 150,000,000 new ordinary shares of the Company.

The First Convertible Notes shall be issued as follows:

- Orient Day shall subscribe for, and the Company shall issue, the convertible note due after 2 years from the date of issue with a principal amount up to HK$30,000,000 (the "First Tranche Note");

- if Orient Day elects to subscribe for, the Company may at its sole discretion give a written notice to Orient Day on or before 31 December 2009 to invite for the subscription for the second tranche of the First Convertible Notes (the "Second Tranche Note") with a further principal amount of HK$15,000,000.

The First Tranche Note and part of the Second Tranche Note of HK$5,000,000 were converted by Orient Day on 22 May 2009, resulting in 116,666,000 new ordinary shares being issued to Orient Day for a toal consideration of HK$35,000,000, satisfied by Orient Day as to HK$25,000,000 by offsetting a loan of HK$25,000,000 due to Orient Day by the Company at the time (note 28) and as to the remaining balance of HK$10,000,000 in cash for general working capital of the Company.

The remaining balance of the Second Tranche Note was exercised by Orient Day on 29 July 2009, resulting in 33,333,000 new ordinary shares being issued to Orient Day for a toal consideration of HK$10,000,000 in cash for general working capital of the Company.

At the end of the reporting period, there were no outstanding First Convertible Notes.

(v) In May 2009, Orient Day and the Company entered into another subscription agreement (the "Second Subscribtion Agreement") in relation to the proposed issue of convertible notes (the "Second Convertible Notes") by the Company to Orient Day. The Second Convertible Notes consist of two tranches and the total principal amount is up to HK$100,000,000. The Second Convertible Notes are convertible into new ordinary shares of the Company at an a conversion price of HK$0.40 per ordinary share, resulting in the issue of an aggregate of up to 250,000,000 new ordinary shares of the Company.

The Second Convertible Notes shall be issued as follows:

- Orient Day shall subscribe for, and the Company shall issue, the convertible note due after 2 years from the date of issue with a principal amount up to HK$100,000,000;

- if Orient Day elects to subscribe for, the Company may at its sole discretion give a written notice to Orient Day on or before 30 June 2011 to invite for the subscription for the whole part of the Second Convertible Note by Orient Day provided that the principal amount of each of the convertible note notices shall be in the multiples of HK$10,000,000.

A total of 50,000,000 and 25,000,000 new shares were issued on 20 October 2009 and 31 December 2009, respectively, and Orient Day exercised its right to convert the Second Convertible Notes into ordinary shares of the Company on the respective issue dates. The proceeds from the conversion of the Second Convertible Notes were of approximately HK$30,000,000.

At the end of the reporting period, a toal of HK$70,000,000 of Second Convertible Notes remained outstanding, the full issue and conversion of which would result in the issue of a total of 175, 000,000 new ordinary shares of the Company with an aggregate gross proceeds of HK$70,000,000.

30. Share Capital *(Continued)*

(a) Shares *(Continued)*

Notes: *(Continued)*

(vi) In July 2009, the Company issued 145,000,000 new ordinary shares at a price of HK$0.40 per share as the consideration for the acquisition of the additional equity interests in China Coal (note 33(a)). At the issue date, the fair value of the consideration shares were approximately HK$69,600,000.

(vii) In October 2009, the Company issued 200,000,000 new ordinary at a price of HK$0.5 per shares as the consideration for the acquisition of minority interests (note 34) in a then non-wholly-owned subsidiary and the acquisition of certain business (note 34). At the issue date, the fair value of the consideration shares were approximately HK$114,000,000.

(viii) In December 2009, the Company entered into several shares sales and subscription agreements with Orient Day and certain other purchasers. Pursuant to which, Orient Day agreed to sell an aggregate of 115,680,000 existing shares of the Company ("Sale Share(s)") beneficially owned by Orient Day to the purchasers at a price of HK$1.02 per Sale Share (the "Sale"). In addition, Orient Day conditionally agreed to subscribe for an aggregate of 115,680,000 new ordinary shares of the Company (the "Subscription Share(s)") at a price of HK$1.02 per Subscription Share (the "Subscription"). The Sale and Subscription was completed on 24 December 2009 with aggreggate net proceeds of approximately HK$117,464,000 received by the Company. The purpose of the Sale and Subscription was to raise capital for the Company while broadening the shareholder base and capital base of the Company.

(ix) In December 2009, 8,800,000 share options have been exercised at an exercise price of HK$0.56 per share, resulting into the isuse of 8,800,000 new ordinary shares of the Company with an aggregate gross proceeds of HK$6,577,000 (including the amount transferred from share option reserve of approximately HK$1,649,000). The net proceeds from the exercise of the share options were HK$4,928,000.

(b) Share Options

Details of the Company's share option scheme are included in note 31 to the financial statements.

31. Share Option Scheme

The Company has a share option scheme ("the Old Scheme") which was adopted on 21 June 2002 whereby, pursuant to a written resolution of the sole shareholder, was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 20 June 2012. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of any companies in the Group, to subscribe for shares in Company. However, the Old Scheme had cancelled during the year ended 31 December 2008.

The Company has a new share option scheme ("the New Scheme") which was adopted on 5 August 2009 and 3 December 2009, respectively, whereby, pursuant to a written resolution of all the shareholders, was set up for the primary purpose of providing incentives to directors and eligible employees, and which will expire on 14 July 2019. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of any companies in the Group, to subscribe for shares in Company.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the issued share capital of the Company from time to time, without prior approval from shareholders of the Company. The number of shares in respect of which options may be granted to an individual in any one year is not permitted to exceed 1% of the Company's issued share capital; otherwise it must be approved by the shareholders of the Company.

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

31. SHARE OPTION SCHEME *(Continued)*

The following table discloses movements in the Company's share options establishing during the year:

Grantee	Date of grant	Exercise period	Outstanding as at 1 January 2009	Granted during the year	Exercise during the year	Lapse during the year	Outstanding as at 31 December 2009	Exercise price per share option *HK$*
Directors								
Wong Yuk Kwan	5 August 2009	5 August 2009 - 14 July 2019	—	3,000,000	—	—	3,000,000	0.56
Cheung Kwok Yu	5 August 2009	5 August 2009 - 14 July 2019	—	3,000,000	(3,000,000)	—	—	0.56
Zhou Li Yang	5 August 2009	5 August 2009 - 14 July 2019	—	3,000,000	—	—	3,000,000	0.56
Zheng Yingsheng	5 August 2009	5 August 2009 - 14 July 2019	—	3,000,000	(2,000,000)	—	1,000,000	0.56
Johnny Yuen	5 August 2009	5 August 2009 - 14 July 2019	—	3,000,000	—	—	3,000,000	0.56
Fung Hing Chiu	5 August 2009	5 August 2009 - 14 July 2019	—	3,000,000	—	—	3,000,000	0.56
Lam Ka Wai Graham	5 August 2009	5 August 2009 - 14 July 2019	—	3,000,000	—	—	3,000,000	0.56
Yu Jianmeng	5 August 2009	5 August 2009 - 14 July 2019	—	1,000,000	—	—	1,000,000	0.56
Lew Mon Hung	3 December 2009	3 December 2009 – 14 July 2019	—	3,000,000	—	—	3,000,000	0.83
			—	25,000,000	(5,000,000)	—	20,000,000	
Consultant								
Dong Zhixiong*	5 August 2009	5 August 2009 - 14 July 2019	—	3,000,000	—	—	3,000,000	0.56
Employees	5 August 2009	5 August 2009 - 14 July 2019	—	5,000,000	(3,800,000)	(1,000,000)	200,000	0.56
			—	33,000,000	(8,800,000)	(1,000,000)	23,200,000	

31. SHARE OPTION SCHEME *(Continued)*

The options granted during the year were measured using the Binomial Option Pricing Model which was performed by an independent valuer, BMI Appraisals Limited. The inputs into the model used are summarised as follows:

Date of grant	5 August 2009	3 December 2009
Spot price	HK$0.56	HK$0.83
Exercise price	HK$0.56	HK$0.83
Risk-free rate	2.43%	2.14%
Nature of the options	Call	Call
Expected life of the options	9.94 years	9.61 years
Expected volatility	75.33%	75.15%
Expected dividend yield	Nil	Nil
Early exercise behavior	150%	150%

The Company recognised total expenses of approximately HK$6,727,000 for the year ended 31 December 2009 in relation to share options granted.

32. RESERVES

(a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 29 of the financial statements.

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

At 31 December 2008 and 2009, 4,060,000 ordinary shares of the Company remained with Pearl Oriental Sino Limited, a subsidiary, which was accounted for as a reduction in the Company's equity.

32. Reserves *(Continued)*

(b) Company

	Issued capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Retained earnings/ (accumulated losses) HK'000	Total HK'000
At 1 January 2008	193,641	346,510	45,348	16,579	(164,895)	437,183
Issue of shares (note 30(a)(i))	38,728	38,728	—	—	—	77,456
Share issue expenses	—	(330)	—	—	—	(330)
Capital reduction (note 30(a)(ii))	(185,895)	—	—	—	185,895	—
Cancellation of share options	—	—	—	(16,579)	16,579	—
Total comprehensive income for the year	—	—	—	—	(10,624)	(10,624)
At 31 December 2008	46,474	384,908	45,348	—	26,955	503,685
Issue of new shares (note 30)	68,568	308,026	—	—	—	376,594
Share issue expenses	—	(530)	—	—	—	(530)
Equity-settled share options arrangements (note 31)	—	—	—	6,727	—	6,727
Share options exercised during the year (note 30(a)(viii))	880	5,697	—	(1,649)	—	4,928
Share options lapsed during the year	—	—	—	(188)	188	—
Total comprehensive for the year	—	—	—	—	(546,417)	(546,417)
At 31 December 2009	**115,922**	**698,101**	**45,348**	**4,890**	**(519,274)**	**344,987**

Notes

(i) Contributed surplus

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

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

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

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

(ii) Share premium account

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

32. RESERVES *(Continued)*

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

	2009 *HK$'000*	2008 *HK$'000*
Share premium	**698,101**	384,908
Contributed surplus	**45,348**	45,348
Retained (losses)/earnings	**(519,274)**	26,955
	224,175	457,211

33. ACQUISITION OF SUBSIDIARIES

(a) ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN CHINA COAL ENERGY HOLDINGS LIMITED ("CHINA COAL")

On 15 July 2009, the Group acquired from independent third parties an aggregate of 15.18% equity interests in China Coal thought the acquisition of an 100% equity interest in Get Wealthy Investments Limited ("Get Wealthy") (which holds 15% equity interests in China Coal) and the remaining 0.18% equity interests in China Coal at an aggregate consideration of HK$58,000,000. The consideration was satisfied by issuing 145,000,000 new ordinary shares (the "Consideration Shares") at a price of HK$0.40 per ordinary share. Upon the completion, the Group's equity interest in China Coal increased from 39.93% (note 18) to 55.11% and China Coal has therefore become an indirect 55.11% owned subsidiary of the Company.

Get Wealthy is an investment holding company incorporated in the British Virgin Islands with limited liabilities. China Coal is an investment holding company incorporated in Hong Kong with limited liabilities. The principal asset of China Coal is an 100% equity interest in Taiyuan Sanxing Coal Gasification (Group) Co., Limited ("Taiyuan Sanxing"). Taiyuan Sanxing was established in the PRC with limited liability. Taiyuan Sanxing and its subsidiary are principally engaged in the coal gasification and coal mining.

33. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN CHINA COAL ENERGY HOLDINGS LIMITED ("CHINA COAL") *(Continued)*

As detailed in note 22 to the financial statements, China Coal has not been provided with the operating and financing information of Taiyuan Sanxing since 1 January 2008 and China Coal is unable to exercise its powers on the financial and operating matters of Taiyuan Sanxing. As a result of the loss of control or significant influence over Taiyuan Sanxing, China Coal's equity interests in Taiyuan Sanxing were reclassified as an available for sales investment at its carrying value of HK$944,312,000 during the year ended 31 December 2008.

The acquisition of additional equity interests in China Coal (the "Acquisition") is not accounted for as a business combination in the Group's consolidated financial statements for the year ended 31 December 2009 as the Group obtained control of Get Wealthy and China Coal through the Acquisition that are not businesses, the bringing together of those entities is not a business combination. Accordingly, the consideration of the Acquisition was allocated between the individual identifiable assets and liabilities of Get Wealthy and China Coal.

	Notes	Fair value recognised on acquisition *HK$'000*	Previous carrying amount *HK$'000*
Available-for-sales investments	22	922,318	944,312
Cash and bank balances		9	9
Other payables and accruals		(4,010)	(4,010)
Due to a former shareholder of China Coal		(23,400)	(23,400)
Due to the Group by China Coal	18	(5,868)	(5,868)
Net assets of Get Wealthy and China Coal		889,049	911,043
Minority interests of China Coal		(399,094)	
Net assets of Get Wealthy and China Coal attributable to the owners of the Company		489,955	
Satisfied by:			
Interests in an associate, China Coal	18	420,355	
Fair value of the Consideration Shares	30(a)(vi)	69,600	
		489,955	

33. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN CHINA COAL ENERGY HOLDINGS LIMITED ("CHINA COAL") *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Get Wealthy and China Coal is as follows:

	HK$'000
Cash consideration	—
Cash and bank balances acquired	9
Net inflow of cash and cash equivalents in respect of the acquisition of Get Wealthy and China Coal	9

Since its acquisition, China Coal has not contributed to the Group's consolidated revenue for the year ended 31 December 2009 but incurred a loss of approximately HK$923,201,000 to the consolidated loss for the year ended 31 December 2009, of which approximately HK$399,094,000 was attributable to its minority interests.

Had the acquisition taken place at 1 January 2009, the Group's consolidated revenue and loss for the year ended 31 December 2009 would have been HK$195,530,000 and HK$968,786,000, respectively.

(b) ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN EURO RESOURCES CHINA LIMITED ("ERC")

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

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

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

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

33. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN EURO RESOURCES CHINA LIMITED ("ERC") *(Continued)*

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

	Fair value recognised on acquisition HK$'000	Previous carrying amount HK$'000
Property, plant and equipment (Note 15)	64,353	64,353
Cash and bank balances	2,029	2,029
Inventories	7,202	7,202
Trade receivables	1,887	1,887
Prepayments and other receivables	4,253	4,253
Trade payables	(9,362)	(9,362)
Accruals and other payables	(30,669)	(30,669)
Due to minority shareholders	(17,507)	(17,507)
Tax payable	(1,707)	(1,707)
	20,479	20,479
Portion attributable to the 30% equity interests in ERC acquired	6,144	
Goodwill on acquisition of 30% equity interests	3,656	
Satisfied as:		
Other income - shortfall in profit of ERC guaranteed by an ex-joint venture partner (Note 5)	9,800	

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

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

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

33. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) ACQUISITION OF ADDITIONAL EQUITY INTERESTS IN EURO RESOURCES CHINA LIMITED ("ERC") *(Continued)*

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

34. ACQUISITION OF MINORITY INTEREST

On 30 July 2009, the Group entered into a sales and purchase agreement (the "ERC Sales and Purchase Agreement") to acquire the entire issued share capital of Poly Keen Limited ("Poly Keen") for an aggregate consideration of HK$50,000,000, which was satisfied by the issue of 100,000,000 new ordinary shares (the "Consideration Share 1") at the price of HK$0.50 per ordinary share. Prior to the acquisition, the Group owned 80% equity interests in Euro Resources China Limited ("ERC ") and its subsidiaries and, Poly Keen owned 20% equity interests in ERC. Upon the completion of the acquisition on 21 October 2009, ERC became a wholly-owned subsidiary of the Company.

	Notes	*HK$'000*
The carrying values of the identifiable assets and liabilities of Poly Keen and ERC Group as at the date of acquisition		12,597
Portion attributable to the remaining 20% equity interests		
In ERC held by Poly Keen		2,519
Elimination of amount due to Poly Keen the ERC Group		11,496
		14,015
Satisfied by:		
Fair value of the Consideration Share 1	30(a)(vii)	(57,000)
Goodwill on acquisition of the remaining 20% equity interest	16	42,985

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of Poly Keen and the ERC Group are as follows:

	HK$'000
Cash consideration	—
Cash and bank balances acquired	—
Net outflow of cash and cash equivalents in respect of the acquisition of Poly Keen	—

35. Acquisition of Business

In addition to the acquisition of minority interests as detailed in note 34 to the financial statements, on 30 July 2009, the Company further entered into a merger agreement ("Merger Agreement") with Mr. Cheung Mo Kit ("Mr Cheung"), an independent third party and the sole shareholder of IB Group Trading Limited ("IBG"). Pursuant to which, a joint venture company, China Environmental Resources Limited ("CER"), has been established for the development of the business of plastic recycling (the "Business"). The registered capital of CER is HK$50,000,000 comprising 50,000,000 shares of HK$1 per share, HK$30,000,000 was contributed by Group for 60% equity interests in CER while the remaining HK$20,000,000 was contributed by Mr. Cheung for 40% equity interests in CER. CER became a 60% owned subsidiary of the Group. A new operating company, IB Environmental Plastic Limited ("IBE" and together with CER, hereby referred as the "IBE Group"), has been set up as a wholly-owned subsidiary CER to operate the Business in the plastic recycling industry in Europe, Japan, the PRC and other countries.

In addition, pursuant to the Merger Agreement, the Company issued 100,000,000 new ordinary shares (the "Consideration Share 2") at the price of HK$0.50 per ordinary share to Mr. Cheung as the consideration for Mr. Cheung's agreeing to enter into the Merger Agreement. Mr. Cheung procured all the Business has been transferred from IBG to IBE.

The fair values of the identifiable assets and liabilities of the Business acquired under the Merger Agreement as at the date of acquisition and the corresponding goodwill arising from the completion of the Merger Agreement were as follows:

	Notes	*HK$'000*
Assets and liabilities of the Business		—
Assets and liabilities of Poly Keen and the ERC Group		12,597
Assets and liabilities of the joint venture, net		12,597
The joint venture partner's 40% share in the assets and liabilities of the IBE Group, net		5,039
Consideration for the Merger Agreement:		
Fair value of the Consideration Share 2	30(a)(vii)	57,000
Goodwill arising from the completion of the Merger Agreement*	16	62,039

* The goodwill arising from the acquisition of the Business of HK$62,039,000 represented (i) the extensive suppliers and customers networks in Japan, Malaysia, Taiwan and Mainland China; (ii) the senior management team of IBG; and (iii) the good reputation and the operation in the plastic recycling industry in Europe, Japan, Mainland China and other countries. These intangible assets have not been recognised separately from the goodwill as the directors of the Company are of the opinion that these intangible assets cannot be measured reliably and cannot be recognised separately as an identifiable asset.

Since its acquisition by the Group, the Business contributed HK$159,018,000 and HK$1,652,000, respectively, to the Group's consolidated revenue and the consolidated profit for the year ended 31 December 2009.

Had the acquisition taken place at 1 January 2009, the Group's consolidated revenue of and consolidated loss for the year ended 31 December 2009 would have been HK$195,530,000 and HK$967,962,000, respectively.

36. DISPOSAL OF SUBSIDIARIES

DISPOSAL OF POEHL

On 22 January 2009, Pearl Oriental Logistics Holdings Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Sunny Villa Investments Limited ("Sunny Villa"). Pursuant to which, the Company (i) has disposed of 60% equity interest in Pearl Oriental Express Holdings Limited ("POEHL) and (ii) waived (the "Waiver") of a shareholder's loan of approximately HK$15,043,000 in full owing from POEHL and its subsidiary, Guangzhou Pearl Oriental Logistics Limited ("GZPO") to the Group for a consideration of HK$3,000,000 which was satisfied by cash and HK$9,000,000 which was satisfied by a convertible bond issued by POEHL with a maturity of two years from the date of issue and which can be convertible into 20% equity interests in POEHL or, GZPO or any other new holding company.

The disposal of POEHL was completed on 28 February 2009 and the Company received cash of HK$3,000,000 and the convertible bond of HK$9,000,000 as the consideration of the disposal of POEHL and the Wavier. In the opinion of the directors of the Company, the fair value of the convertible bond was minimal at the date of issue.

DISPOSAL OF GOOD VALUE GROUP

In prior years, the Group had 100% equity interest in Good Value Holdings Limited ("Good Value") and its subsidiaries, Hong Kong Good Value Holdings Limited ("HKGVH") and Pearl Oriental Warehouse (Shenzhen) Limited ("POW (SZ)") (collectively referred to as the "Good Value Group"). The principal activities of POW (SZ) were provision of logistics services and warehousing services in the PRC and, POW(SZ) owned a bonded warehouse property (the "Warehouse") in Futian, Shenzhen, the PRC. The Warehouse has been pledged to a bank for a bank loan granted to the Group (the "Bank Loan").

On 27 November 2009, the Group entered into a sale and purchase agreement with Full Wealth International Investments Holdings Limited ("Full Wealth"), an independent third party. Pursuant to which, the Group had disposed of its 100% equity interests in Good Value at a consideration of RMB93,000,000 (equivalent to approximately HK$105,520,000), in which (i) RMB46,500,000 (equivalent to approximately HK$52,760,000) is satisfied by cash; and (ii) the remaining consideration of RMB46,500,000 (equivalent to approximately HK$52,760,000) is offset against the outstanding bank loan of POW (SZ) of approximately RMB46,720,000 (equivalent to approximately HK$53,280,000). The net proceeds after the deduction of the Bank Loan amounted to RMB46,500,000 (equivalent to approximately HK$52,760,000).

36. DISPOSAL OF SUBSIDIARIES *(Continued)*

DISPOSAL OF GOOD VALUE GROUP *(Continued)*

The major classes of assets and liabilities of the POEHL Group and the Good Value Group as at the respective disposal dates were as follows:

	Notes	POEHL Group HK$'000	Good Value Group HK$'000	Total HK$'000
Net assets disposed of:				
Property, plant and equipment	14	3,419	94,936	98,355
Prepaid land lease payments	15	—	19,082	19,082
Cash and bank balances		286	487	773
Trade receivables		7,331	74	7,405
Prepayments and other receivables		5,036	74	5,110
Trade payables		(3,717)	(211)	(3,928)
Accruals and other payables		(8,465)	(1,639)	(10,104)
Interest bearing bank borrowings*		—	(53,280)	(53,280)
Tax payable		(14)	(16,637)	(16,651)
Due to minority interests		(3,996)	—	(3,996)
Due to immediate holding company		(15,043)	—	(15,043)
		(15,163)	42,886	27,723
Waiver of the amount due to immediate holding company		15,043	—	15,043
Net assets value		(120)	42,886	42,766
Exchange fluctuation reserve realised	5	(4,685)	(2,591)	(7,276)
		(4,805)	40,295	35,490
Gain on disposal of subsidiaries		7,805	12,465	20,270
		3,000	52,760	55,760
Satisfied by:				
Cash		3,000	52,760	55,760
Fair value of the convertible bond		—	—	—
		3,000	52,760	55,760

* The remaining consideration of RMB46,500,000 (equivalent to HK$52,760,000) is offset against the outstanding Bank Loan of approximately RMB46,720,000 (equivalent to approximately HK$53,280,000), the Group is not liable to the excess amount between the remaining consideration and the outstanding Bank Loan.

36. DISPOSAL OF SUBSIDIARIES *(Continued)*

DISPOSAL OF GOOD VALUE GROUP *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	POEHL Group *HK$'000*	**Good Value Group** *HK$'000*	**Total** *HK$'000*
Cash consideration	3,000	52,760	55,760
Cash and bank balances disposed of	(286)	(487)	(773)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	2,714	52,273	54,987

37. CONTINGENT LIABILITIES

At the end of the reporting period, the Company's contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2009 *HK$'000*	2008 *HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	—	60,370

As at 31 December 2008, corporate guarantees were given to the banks by the Company for the banking facilities granted to the subsidiary of the Company, which were utilised to the extent of approximately HK$60,367,000. No financial liabilities were recorded for the above guarantees given to banks as, in the opinion of the directors, the fair values of the financial guarantee contracts were not material as at 31 December 2008.

The relevant corporate guarantees were released upon the disposal of subsidiaries during the year (notes 27 and 36).

Details of the Group's litigations and the related contingent liabilities (if any) are set out in note 41 to the financial statements.

38. Operating Lease Arrangements

As Lessee

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

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Within one year	**3,303**	7,612
In the second to fifth year, inclusive	**3,719**	733
After five years	**—**	—
	7,022	8,345

The Company did not have any significant operating lease arrangements as at 31 December 2009 (2008: Nil)

39. Capital Commitments

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2009	2008
	HK$'000	*HK$'000*
Authorised, but not contracted for:		
Proposed acquisition of a subsidiary (note 21(a))	**8,352**	8,461
Leasehold improvement	**32**	—
	8,384	8,461

The Company did not have any significant commitments as at 31 December 2009 (2008: Nil).

40. RELATED PARTY TRANSACTIONS AND BALANCES

(i) In addition to the balances detailed in notes 18, 23 and 28 to the financial statements, the Group had the following transactions with the related party during the year:

	2009	2008
	HK$'000	*HK$'000*
Immediate and ultimate controlling party:		
Orient Day Developments Limited:		
Administrative fees paid	—	250
Loan interest paid	855	882
Ex-minority shareholder of a subsidiary		
Favour Good Investments Limited:		
Loan interest paid	1,256	—

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

(ii) Compensation of key management personnel of the Group:

	2009	2008
	HK$'000	*HK$'000*
Short term employee benefits	5,580	3,932
Post-employment benefits	—	—
Equity-settled share option expenses	2,248	—
Total compensation paid to key management personnel	7,828	3,932

Further details of directors' emoluments are included in note 8 to the financial statements.

41. LITIGATIONS

Apart from the litigations detailed in note 22 to the financial statements, the Group had the following significant outstanding litigations at the end of the reporting period:

(a) LITIGATION WITH THE EX-DIRECTORS OF A DISPOSED SUBSIDIARY

The Group had three pending litigation claims with the ex-directors of a disposed subsidiary, Dransfield Holdings Limited ("DHL"), who claim against the Group for a total sum of not less than HK$11.4 million. As disclosed in the Company's announcement dated 23 August 2005, the Company's interest in DHL was disposed of on 23 July 2005. It was alleged in these claims that by disposing of all its shares in DHL, the Company was evading liabilities and denying these claimants' benefits of the debts owned by DHL. A judgment (the"Judgment") was given in favour of Horace Yao Yee Cheong, Habile International Holdings Limited and Makdavy Holdings Limited (collectively, the "Plaintiffs") against the Company on 22 May 2009 for the aggregate sum of approximately HK$6.9 million together with interests thereon and legal costs. To pursue the appeal, the Company has paid a total sum of HK$10,167,000 (note 21) to the Court being the security for payment of judgement debt and the Plaintiffs' cost. The Company has filed an appeal against the Judgment and the appeal was allowed by the Court of Appeal and the Judgment was set aside on 13 April 2010. On the basis of the Court of Appeal's judgement, the Group is not liable to pay to the Plaintiffs. The Board is of the view that the claims filed by the remaining two ex-directors, Ms. Cheung Kam Wah and Mr. Tse Tack Huen, Alexander, are without merit.

(b) LITIGATION WITH DICHAIN HOLDINGS LIMITED

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

42. Events after the Reporting Period

Subsequent to the reporting period, the Group has following events:

(a) On 9 January 2010, the Group entered into an agreement with the vendors (the "Vendors"), pursuant to which, the Company will acquire (the "Acquisition") the 100% equity interest in Festive Oasis Limited ("Oasis") and its subsidiaries (collectively, the "Oasis Group"), the 100% ownership interest in respect of oil, gas and/or mineral leases, title and related rights in the certain natural gas and oilfield located in the Utah, the United States of America (the "Ownership Interest") through 2 phases and the amount due by Oasis to one of its shareholders, Charcon, (a shareholder which owns a 35% interest in Oasis) (the "Sales Loan"). In phase 1, the Company will acquire the 100% equity interest in Oasis and the Sales Loan at a consideration of US$200 million (equivalent to approximately HK$1,560 million, the "Phase 1 Consideration") which is to be satisfied by (i) as to US$50 million (equivalent to approximately HK$390 million) by cash; and (ii) as to US$150 million (equivalent to approximately HK$1,170 million) by the issue of up to 847,810,000 consideration shares in the Company at a price (the "Price") of HK$1.38 per Share. As a condition to the payment of the Phase 1 Consideration, the Vendors will transfer to the Oasis Group, by phases, a 70% Ownership Interest. In phase 2, the Company may, at its option, further acquire the remaining 30% Ownership Interest and transfer to the same to the Oasis Group at a consideration of US$25 million (equivalent to approximately HK$195 million) which is to be satisfied by (i) as to US$25 million (equivalent to approximately HK$195 million) by cash in full; or (ii) if the Vendors elect, as to US$12.5 million (equivalent to approximately HK$97.5 million) by cash and the remaining sum of US$12.5 million (equivalent to approximately HK$97.5 million) by the issue of 70,650,000 consideration shares in the Company at HK$1.38 per Share.

    The Acquisition constitutes a very substantial acquisition and a connected transaction of the Company under the Listing Rules. At the date of approving these audited financial statements, the acquisition is still subject to, inter alias, the approval of the independent shareholders of the Company.

(b) The Company further entered into various share sale and subscription agreements with certain independent third parties (the "Purchasers") and Orient Day, on 12 December 2009 and 13 December 2009. Pursuant to which, Orient Day agreed to sell an aggregate of 65,000,000 existing ordinary shares (the "Sale Share(s)") of the Company to the Purchasers at a price of HK$1.02 per Sale Share. In addition, Orient Day conditionally agreed to subscribe for an aggregate of 65,000,000 new shares (the "Subscription Share(s)") of the Company at a price of HK$1.02 per Subscription Share, resulting in an aggregate gross proceeds of HK$66.3 million as additional working capital of the Company. The subscription was completed in January 2010.

(c) During the period from 15 April 2010 to 20 April 2010, the Company has entered into several subscription agreements (the "Subscription Agreements") with certain subscribers (the "Subscriptions"), pursuant to which, those subscribers have conditionally agreed to subscribe for an aggregate of 231,367,000 new shares (the "Subscription Share(s)") at a price of HK$1.38 per Subscription Share. The gross proceeds from the Subscription are approximately HK$319,000,000, which is intended to be partially utilised for the proposed Acquisition mentioned in note 42(a) above, the remaining balance of the proceeds shall be utilised as costs for the exploitation and exploration of existing and new wells of the Utah Gas and Oil Field. At the date of approving these audited financial statements, the Subscriptions have not yet been completed.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

MAJOR NON-CASH TRANSACTIONS

Apart from details set out in notes 33 to 35 to the financial statements regarding the acquisition of subsidiaries, minority interest and the Business and note 36 regarding the disposal of subsidiaries, the Group had the following major non-cash transaction:

As set out in note 30(a)(iv) to the financial statements, the First Tranche Note of HK$30,000,000 and part of the Second Tranche Note of HK$5,000,000 of the First Convertible Notes was converted by Orient Day on 22 May 2009, resulting in 116,666,000 new ordinary shares being issued to Orient Day for a toal consideration of HK$35,000,000. The consideration was satisfied by Orient Day partly by offsetting a loan of HK$25,000,000 due to Orient Day by the Company at that time (note 28).

44. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

31 December 2009

Financial assets

	Group	
	Loans and receivables *HK$'000*	**Total** *HK$'000*
Trade receivables	6,199	6,199
Financial assets included in prepayments, deposits and other receivables	47,521	47,521
Cash and cash equivalents	224,314	224,314
	278,034	278,034

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*	**Total** *HK$'000*
Trade payables	5,700	5,700
Financial liabilities included in other payables and accruals	51,696	51,696
Loan from immediate parent and ultimate controlling party	71,210	71,210
	128,606	128,606

44. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

31 December 2008

Financial assets

	Group	
	Loans and receivables *HK$'000*	Total *HK$'000*
Trade receivables	10,250	10,250
Financial assets included in prepayments, deposits and other receivables	11,195	11,195
Due from an associate	5,593	5,593
Cash and cash equivalents	15,787	15,787
	42,825	42,825

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Trade payables	8,767	8,767
Financial liabilities included in other payables and accruals	19,886	19,886
Loan from immediate parent and ultimate controlling party	25,000	25,000
Due to minority shareholders of subsidiaries	21,504	21,504
Interest-bearing bank borrowings, secured	60,380	60,380
	135,537	135,537

44. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

31 December 2009

Financial assets

	Company	
	Loans and receivables	**Total**
	HK$'000	***HK$'000***
Cash and cash equivalents	206,624	206,624
Other receivables	10,446	10,446
Due from subsidiaries	726,156	726,156
	943,226	943,226

Financial liabilities

	Financial liabilities at amortised cost	**Total**
	HK$'000	***HK$'000***
Financial liabilities included in other payables and accruals	4,073	4,073
Loan from immediate parent and ultimate controlling party	69,412	69,412
Due to subsidiaries	11,256	11,256
	84,741	84,741

44. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

31 December 2008 — Company

Financial assets

	Loans and receivables *HK$'000*	Total *HK$'000*
Cash and cash equivalents	8,882	8,882
Other receivables	80	80
Due from subsidiaries	527,076	527,076
	536,038	536,038

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*	Total *HK$'000*
Financial liabilities included in other payables and accruals	2,003	2,003
Loan from immediate parent and ultimate controlling party	25,000	25,000
Due to subsidiaries	5,350	5,350
	32,353	32,353

45. Financial Risk Management Objectives and Policies

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

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

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing bank borrowings, secured, with a floating interest rate.

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

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *HK$'000*	**Increase/ (decrease) in in equity*** *HK$'000*
31 December 2009			
Hong Kong dollars	**1%**	**(31)**	**—**
	(1%)	**31**	**—**
31 December 2008			
Hong Kong dollars	1%	(854)	—
	(1%)	854	—

* Excluding retained profits/accumulated losses.

45. Financial Risk Management Objectives and Policies *(Continued)*

Foreign Currency Risk

The Group has minimal transactional currency exposures as the sales and purchases of the Group were mainly transacted in Chinese Renminbi ("RMB"), Euro ("Euro") and Hong Kong dollars (HKD). Approximately 17% (2008: 90%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, while almost 10% of costs are denominated in the units' functional currency.

The exchange rate of RMB and EURO were comparatively volatile.

The following table demonstrates the sensitivity at the end of reporting period to a reasonably possible change in the exchange rate of RMB and EURO exchange rate, with all other variable held constant, of the Group's profit before tax.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity***
	%	***HK$'000***	***HK$'000***
31 December 2009			
If HKD weakens against RMB	**5%**	**122**	**—**
If HKD strengthens against RMB	**5%**	**(122)**	**—**
If HKD weakens against EURO	**5%**	**(20)**	**—**
If HKD strengthens against EURO	**5%**	**20**	**—**
31 December 2008			
If HKD weakens against RMB	5%	(2,593)	—
If HKD strengthens against RMB	5%	2,593	—
If HKD weakens against EURO	5%	(221)	—
If HKD strengthens against EURO	5%	221	—

* Excluding retain profits/accumulated losses.

At 31 December 2008 and 2009, the Group had not hedged any foreign currency sales to reduce such foreign currency risk.

45. Financial Risk Management Objectives and Policies *(Continued)*

Credit Risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amount due from an associate and other receivable, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

Liquidity Risk

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

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

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

LIQUIDITY RISK *(Continued)*

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

Group

31 December 2009

	On demand	Less than 3 months	Held to 3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	—	5,700	—	—	5,700
Other payables and accruals	51,696	—	—	—	51,696
Due to immediate parent and ultimate controlling party	—	—	4,910	66,300	71,210
	51,696	5,700	4,910	66,300	128,606

31 December 2008

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

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

LIQUIDITY RISK *(Continued)*

Company

31 December 2009

	On demand	**Less than 3 months**	**Held to 3 to less than 12 months**	**1 to 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Other payables and accruals	**4,073**	**—**	**—**	**—**	**4,073**
Due to subsidiaries	**11,256**	**—**	**—**	**—**	**11,256**
Due to immediate parent and ultimate controlling party	**—**	**—**	**3,112**	**66,300**	**69,412**
	15,329	**—**	**3,112**	**66,300**	**84,741**

31 December 2008

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

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders of issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 2008.

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

Group

	2009	2008
	HK$'000	*HK$'000*
Trade payables	**5,700**	8,767
Other payables and accruals	**51,696**	19,886
Loan from immediate parent and ultimate controlling party	**71,210**	25,000
Interests-bearing bank borrowings, secured	**—**	60,380
Due to minority shareholders of subsidiaries	**—**	21,504
Less: Cash and cash equivalents	**(224,314)**	(15,787)
Net debt	**(95,708)**	119,750
Total equity	**344,987**	521,943
Equity and net debt	**249,279**	641,693
Gearing ratio	**(38%)**	19%

46. COMPARATIVE AMOUNTS

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

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 April 2010.

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

	Year ended 31 December 2009 *HK$'000*	Year ended 31 December 2008 *HK$'000*	Period from 1 April 2007 to 31 December 2007 *HK$'000*	Year ended 31 March 2007 *HK$'000*	Year ended 31 March 2006 *HK$'000*
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**195,530**	78,783	55,620	65,344	75,157
Cost of sales	**(175,091)**	(51,095)	(40,272)	(51,061)	(54,207)
Gross profit	**20,439**	27,688	15,348	14,283	20,950
Other income and gains	**23,968**	12,493	7,361	4,218	20,609
Selling and distribution costs	**(5,345)**	(17,609)	(7,175)	(4,912)	(4,732)
Administrative expenses	**(71,515)**	(43,171)	(34,939)	(39,539)	(107,202)
Equity-settled share-based payments expenses	**(6,727)**	—	(4,126)	(20,297)	—
Finance costs	**(5,597)**	(6,494)	(4,125)	(6,868)	(6,155)
Impairment losses on available-for-sales investments	**(922,318)**	—	—	—	—
Share of profits and losses of associates	**(548)**	(12,752)	61,884	(1,201)	—
PROFIT/(LOSS) BEFORE TAX	**(967,643)**	(39,845)	34,228	(54,316)	(76,530)
Tax	**(319)**	(1,420)	(1,103)	(1,168)	(1,039)
PROFIT/(LOSS) FOR THE YEAR/PERIOD	**(967,962)**	(41,265)	33,125	(55,484)	(77,569)
Attributable to:					
Owners of the Company	**(566,840)**	(38,310)	38,422	(53,278)	(78,276)
Minority interests	**(401,122)**	(2,955)	(5,297)	(2,206)	707
	(967,962)	(41,265)	33,125	(55,484)	(77,569)

ASSETS, LIABILITIES AND MINORITY INTERESTS

TOTAL ASSETS	**473,912**	673,931	645,008	547,256	156,787
TOTAL LIABILITIES	**(128,925)**	(151,988)	(168,763)	(119,514)	(103,080)
MINORITY INTERESTS	**(16,159)**	(8,647)	(6,297)	(1,818)	(4,024)
	328,828	513,296	469,948	425,924	49,683

This summary does not form part of the audited financial statements.