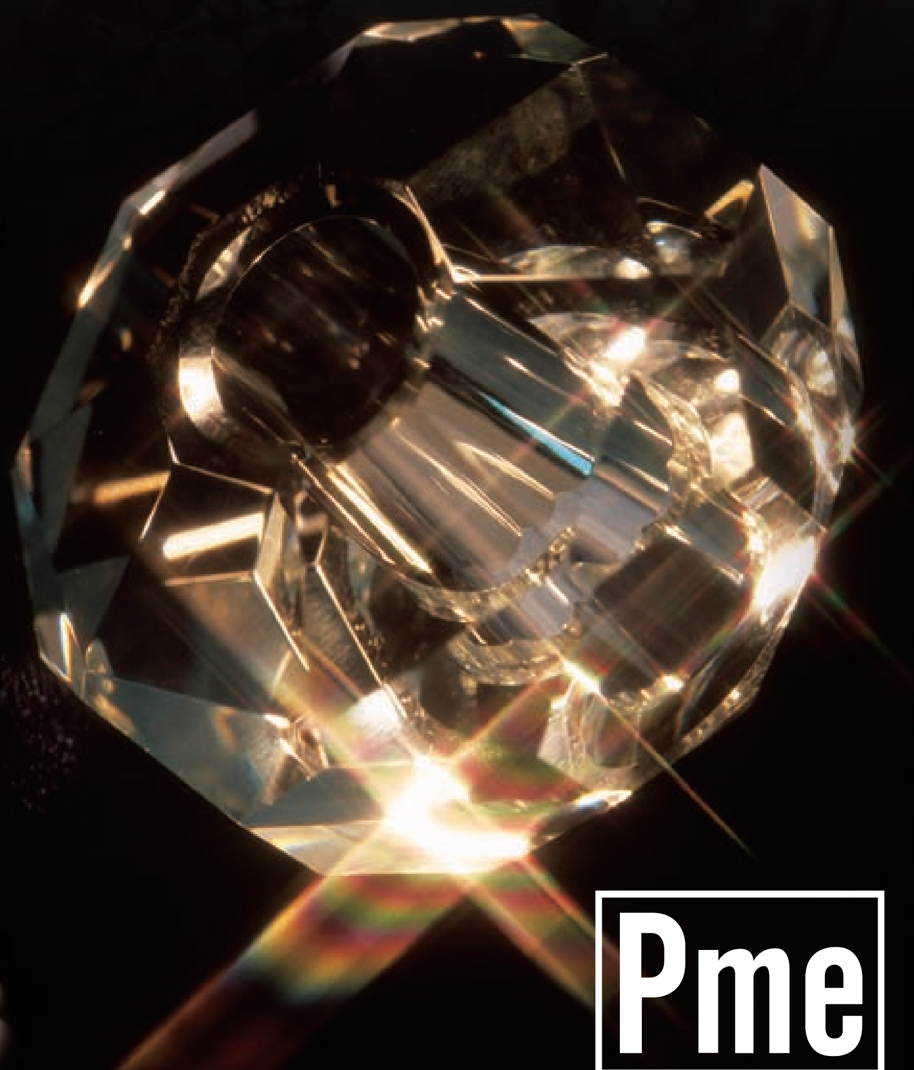
PME GROUP LIMITED (incorporated in the Cayman Islands with limited liability) | Stock Code : 00379

PME GROUP LIMITED

ANNUAL REPORT 2010



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PME GROUP LIMITED

ANNUAL REPORT 2010

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Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chow Fu Kit Edward
Mr. Leung Yuen Wing

JOINT COMPANY SECRETARIES

Mr. Li Chak Hung
Mr. Lai Ka Fai

AUTHORISED REPRESENTATIVES

Mr. Cheng Kwok Woo
Mr. Cheng Kwong Cheong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDITOR

SHINEWING (HK) CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

Standard Chartered Bank
The Hongkong and Shanghai Banking Corporation Limited
Fubon Bank (Hong Kong) Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

379

WEBSITE

http://www.pme8.com

Chairman's Statement

I hereby present to our shareholders the 2010 annual report.

RESULTS FOR THE YEAR

For the year 2010, the Group recorded turnover of approximately HK$188.4 million and net loss attributable to shareholders amounted to approximately HK$93.7 million. The Directors do not recommend payment of final dividend for the year ended 31 December 2010.

REVIEW OF THE YEAR

The Group's turnover for the year ended 31 December 2010 decreased by 41.1% to HK$188.4 million as compared with last year. The decrease in turnover was mainly due to decrease in the proceeds from held for trading investments during the year. During the year 2010, segmental revenue of polishing materials and equipments and investment divisions decreased by 11.2% and 50.0% respectively as compared with last year.

Loss for the year ended 31 December 2010 attributable to the shareholders of the Company was approximately HK$93.7 million (2009: Profit of HK$158.4 million). The Group incurred a loss for the year ended 31 December 2010 mainly due to increase in share-based payment expenses, decrease in fair value increase of convertible bonds designated as financial assets at fair value through profit or loss, and decrease in gain on disposal of associates.

Segmental loss of the polishing materials and equipments division decreased from approximately HK$43.4 million in 2009 to HK$4.7 million in 2010, which was mainly due to improvement in gross profit margin of the polishing products and decrease in revaluation loss of building. The gross profit margin of polishing materials and equipments division had been improved from 8.1% in 2009 to 13.6% in 2010.

The investment division recorded a segmental profit of approximately HK$6.0 million, as compared with the segmental profit of approximately HK$235.5 million in 2009, which was mainly caused by the decrease in fair value increase of convertible bonds designated as financial assets at fair value through profit or loss and decrease in gain on disposal of associates.

OUTLOOK

It is expected that economic recovery will continue but there is still full of uncertainty in terms of the sustainability of the recovery. It is expected that demand for consumer products will grow but in a slow pace. The costs of raw materials and labour costs are increasing, but it is difficult to transfer all the cost increments to the customers as the market competition is very keen.

The Board remain cautious of the outlook of the polishing product business. The disposal of the Magic Horizon Group during 2010 realises the Group's investment in Magic Horizon Group and releases its resources for development and investment in other potential business opportunities. In addition, by entering into the master processing agreement, the Group will have better control of the manufacturing costs and is able to benefit from possible lower processing price by negotiation with other sub-contractors available to the Group and cap its maximum costs when processing price of the raw materials is rising. The Group will continue to enforce cost-saving measures, concentrate on selling products with high profit margin and expand its distribution network.

Chairman's Statement

The acquisition of 49% equity interests in Giant Billion Limited ("Giant Billion") was completed in February 2010. The Board consider that the investment in Giant Billion will provide a good opportunity for the Group to participate in the media industry in Mainland China and will bring return to the Group. It is expected that the respective digital sports television channel will be ready for public broadcast in 2011.

The recovery of the global economy remains uncertain. The financial market in Hong Kong is expected to continue to be volatile during the first half of 2011. As there are potential pitfalls in the external environment, the Board will continue to adopt prudent investment strategies, but believe that attractive investment opportunities are available as companies and businesses may well be undervalued in a volatile financial market.

In addition, the Board considers that with the profitable track record and future prospects of 日照嵐山萬盛港業有限責任公司 (Rizhao Lanshan Wansheng Harbour Company Limited), the acquisition of Upmove International Limited is in line with the Group's business development strategy of exploring and developing profitable business and can improve the results and strengthen the financial position of the Group.

The Board and management of the Group will continue to use their best endeavor to strengthen and strive for improvements in all the Group's business segments and to enhance the long-term growth potential of the Group.

APPRECIATION

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

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

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

Cheng Kwok Woo
Chairman

Hong Kong, 30 March 2011

Management Discussion and Analysis

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group's turnover for the year ended 31 December 2010 decreased by 41.1% to HK$188.4 million as compared with last year. The decrease in turnover was mainly due to decrease in the proceeds from held for trading investments during the year. During the year 2010, segmental revenue of polishing materials and equipments and investment divisions decreased by 11.2% and 50.0% respectively as compared with last year.

Loss for the year ended 31 December 2010 attributable to the shareholders of the Company was approximately HK$93.7 million (2009: Profit of HK$158.4 million). The Group incurred a loss for the year ended 31 December 2010 mainly due to increase in share-based payment expenses, decrease in fair value increase of convertible bonds designated as financial assets at fair value through profit or loss, and decrease in gain on disposal of associates.

Segmental loss of the polishing materials and equipments division decreased from approximately HK$43.4 million in 2009 to HK$4.7 million in 2010, which was mainly due to improvement in gross profit margin of the polishing products and decrease in revaluation loss of building. The gross profit margin of polishing materials and equipments division had been improved from 8.1% in 2009 to 13.6% in 2010.

The investment division recorded a segmental profit of approximately HK$6.0 million, as compared with the segmental profit of approximately HK$235.5 million in 2009, which was mainly caused by the decrease in fair value increase of convertible bonds designated as financial assets at fair value through profit or loss and decrease in gain on disposal of associates.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2010, the Group had interest-bearing bank and other loans of approximately HK$9.4 million (31 December 2009: HK$17.0 million), which were of maturity within one year. The Board expects that all the bank and other loans will be repaid by internal generated funds or rolled over upon the maturity and continues to provide funding to the Group's operations.

At 31 December 2010, current assets of the Group amounted to approximately HK$745.7 million (31 December 2009: HK$587.9 million). The Group's current ratio was approximately 10.91 as at 31 December 2010 as compared with 9.10 as at 31 December 2009. At 31 December 2010, the Group had total assets of approximately HK$1,230.3 million (31 December 2009: HK$892.3 million) and total liabilities of approximately HK$349.8 million (31 December 2009: HK$68.3 million), representing a gearing ratio (measured as total liabilities to total assets) of 28.4% as at 31 December 2010 as compared with 7.7% as at 31 December 2009.

Management Discussion and Analysis

CHARGE OF ASSETS

At 31 December 2010, the Group's pledged bank deposits with carrying value of HK$6.2 million and the listed securities held under the margin accounts, with a total market value of approximately HK$40.2 million have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

At 31 December 2009, the Group's leasehold land and buildings with aggregate carrying value of approximately HK$59.9 million and the listed securities held under the margin accounts, with a total market value of approximately HK$104.9 million have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

SIGNIFICANT INVESTMENTS

At 31 December 2010, the Group held available-for-sale investments, interests in associates, convertible bonds designated as financial assets at fair value through profit or loss and held for trading investments amounting to approximately HK$110.2 million, HK$343.7 million, HK$106.7 million and HK$81.6 million respectively. During the year, the Group recorded gain on disposal of subsidiaries amounting to approximately HK$7.5 million, gain on disposal of available-for-sale investments amounting to approximately HK$14.0 million and gain on disposals of held for trading investments amounting to approximately HK$9.0 million.

FOREIGN EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2010 and 2009.

CAPITAL COMMITMENTS

At 31 December 2010, the Group had capital commitments in respect of acquisition of a subsidiary amounting to approximately HK$401.1 million which are contracted for but not provided in the financial statements.

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

Management Discussion and Analysis

OUTLOOK

It is expected that economic recovery will continue but there is still full of uncertainty in terms of the sustainability of the recovery. It is expected that demand for consumer products will grow but in a slow pace. The costs of raw materials and labour costs are increasing, but it is difficult to transfer all the cost increments to the customers as the market competition is very keen.

The Board remain cautious of the outlook of the polishing product business. Taking into account the continuing losses incurred by the Magic Horizon Group in 2008 and 2009, the disposal of the Magic Horizon Group during 2010 represents a good opportunity for the Company to realise its investment in Magic Horizon Group and to release its resources for development and investment in other potential business opportunities. In addition, by entering into the master processing agreement, the Group will have better control of the manufacturing costs and is able to benefit from possible lower processing price by negotiation with other sub-contractors available to the Group and cap its maximum costs when processing price of the raw materials is rising. The Group will continue to enforce cost-saving measures, concentrate on selling products with high profit margin and expand its distribution network.

The acquisition of 49% equity interests in Giant Billion Limited ("Giant Billion") was completed in February 2010. The Board consider that the investment in Giant Billion will provide a good opportunity for the Group to participate in the media industry in Mainland China and will bring return to the Group. It is expected that the respective digital sports television channel will be ready for public broadcast in 2011.

The recovery of the global economy remains uncertain. The financial market in Hong Kong is expected to continue to be volatile during the first half of 2011. As there are potential pitfalls in the external environment, the Board will continue to adopt prudent investment strategies, but believe that attractive investment opportunities are available as companies and businesses may well be undervalued in a volatile financial market.

In addition, the Board considers that with the profitable track record and future prospects of 日照嵐山萬盛港業有限責任公司(Rizhao Lanshan Wansheng Harbour Company Limited, "Rizhao Lanshan"), the acquisition of Upmove International Limited ("Upmove") is in line with the Group's business development strategy of exploring and developing profitable business and can improve the results and strengthen the financial position of the Group.

The Board and management of the Group will continue to use their best endeavor to strengthen and strive for improvements in all the Group's business segments and to enhance the long-term growth potential of the Group.

Management Discussion and Analysis

MATERIAL ACQUISITIONS AND DISPOSALS

The transaction in relation to the acquisition of 49% equity interests in Giant Billion at the consideration of HK$200,000,000 was completed on 1 February 2010. Details were set out in the Company's circular dated 7 September 2009.

During the year 2010, the Group entered into a conditional sale and purchase agreement to acquire the entire issued share capital of Upmove at a consideration of RMB343,679,250 (approximately HK$401,073,685). Upmove will own 50% of the registered capital of Rizhao Lanshan after restructuring. Rizhao Lanshan is a sino-foreign joint venture company established in Mainland China and engaged in provision of terminal and logistic services including loading and discharging, storage and transfer of iron ore, steel products, timber and other goods and leasing of terminal facilities and equipment in Lanshan Harbour, Rizhao Port, Shangdong province of China. Details of the acquisition are disclosed in the Company's circular dated 27 January 2011. At the date of this report, the acquisition is not yet completed.

During the year 2010, the Group disposed of its 100% equity interests in Magic Horizon Investment Limited and the loans due from Magic Horizon Group at a consideration of approximately HK$64.1 million. The disposal was completed on 30 December 2010. Details of the disposal are disclosed in the Company's circular dated 13 December 2010 and note 44 to the consolidated financial statements.

FUND RAISING ACTIVITY

During the year under review, the Company placed convertible bonds of HK$264,000,000 to an investor. The net proceeds from the placing, after deducting the placing commission, are approximately HK$260,700,000, which will be applied to finance part of the consideration for the acquisition of entire issued share capital of Upmove.

EMPLOYEES AND REMUNERATION

At 31 December 2010, the Group had approximately 55 (2009: 150) employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Company also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") considers that good corporate governance of the Company is crucial to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the year ended 31 December 2010.

THE BOARD OF DIRECTORS

The Board comprises five Executive Directors and three Independent Non-Executive Directors ("INEDs"). The brief biographic details of and the relationship among Board members is set out in the Directors' and Senior Management's Profiles on pages 13 and 14. The Board has established three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee. Attendance of the Board Meetings and the meetings of the Board Committees is given below and their respective responsibilities are discussed later in this report:

	No. of meetings attended/eligible to attend			
	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee
Executive Directors				
Cheng Kwok Woo	10/10		1/1	1/1
Cheng Kwong Cheong	7/10			1/1
Yeung Sau Han Agnes	8/10			
Chan Shui Sheung Ivy	10/10			
Tin Ka Pak	9/10			
Independent Non-Executive Directors				
Chow Fu Kit Edward	8/10	2/2	1/1	1/1
Leung Yuen Wing	6/10	2/2	1/1	1/1
Soong Kok Meng (resigned on 14 January 2011)	8/10	2/2		1/1

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

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

Corporate Governance Report

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION COMMITTEE

The Company has set up a Remuneration Committee to ensure that there are formal and transparent procedures for setting policies on the remuneration of Directors and senior management. The Remuneration Committee comprises the Board's Chairman, Mr. Cheng Kwok Woo, Vice Chairman, Mr. Cheng Kwong Cheong and three INEDs, namely Mr. Chow Fu Kit Edward, Mr. Leung Yuen Wing and Mr. Soong Kok Meng (resigned on 14 January 2011). The Remuneration Committee is chaired by Mr. Leung Yuen Wing.

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

NOMINATION COMMITTEE

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

Corporate Governance Report

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

AUDIT COMMITTEE

The Audit Committee comprises three INEDs, namely Mr. Chow Fu Kit Edward, Mr. Leung Yuen Wing and Mr. Soong Kok Meng (resigned on 14 January 2011). The Audit Committee is chaired by Mr. Leung Yuen Wing.

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

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the Directors. Following a specific enquiry, all Directors confirmed they have complied with the standards set out in the Model Code throughout the year ended 31 December 2010.

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

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibility for preparing the financial statements of the Group. As at 31 December 2010, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

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

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

Corporate Governance Report

AUDITOR'S REMUNERATION

For the year ended 31 December 2010, the auditor of the Company provided audit and non-audit services to the Company and the Group.

The auditor's remuneration in relation to the audit and non-audit services for the year amounted to HK$880,000 and HK$260,000 respectively.

The statement of the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on page 23.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 30 March 2011

Directors' and Senior Management's Profiles

DIRECTORS

Executive Directors

Mr. Cheng Kwok Woo, aged 54, is the Chairman of the Group. He joined the Group in 1990 and is responsible for strategic planning, business development and Board issues of the Group. He has over 25 years of experience in the trading and manufacturing of abrasive products. Mr. K.W. Cheng is the brother of Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying.

Mr. Cheng Kwong Cheong, aged 50, is the Vice-Chairman of the Group. He joined the Group in 1990 and is responsible for the operations and development of the Group's manufacturing division. He has over 25 years of experience in the trading and manufacturing of abrasive products. Mr. K.C. Cheng is the brother of Mr. Cheng Kwok Woo and Ms. Cheng Wai Ying.

Ms. Yeung Sau Han Agnes, aged 45, is the Chief Executive Officer of the Group. She joined the Group in May 2007 and is responsible for the Group's overall operations and development. She graduated from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) with a higher diploma in fashion design. She is also an executive director of China Railway Logistics Limited, which is listed on the Stock Exchange.

Ms. Chan Shui Sheung Ivy, aged 46, joined the Group in May 2007 and is responsible for business development of the Group. She holds a Master degree of Business Administration from the University of South Australia. She has over 16 years of experience in investment. She is also an executive director of China Railway Logistics Limited and China Oriental Culture Group Limited, both are listed on the Stock Exchange.

Mr. Tin Ka Pak, aged 35, joined the Group in May 2008 and is responsible for investment projects and investor relationship of the Group. He holds a Bachelor degree of Business Administration from Oxford Brookes University in the United Kingdom. He has been working in companies listed on the Stock Exchange to assist the chairman and CEO in group management, strategic planning, sales and marketing development, investment evaluation, and investor relationship. He is also an executive director of China Bio-Med Regeneration Technology Limited and China Oriental Culture Group Limited, both are listed on the Stock Exchange.

Independent Non-executive Directors

Mr. Chow Fu Kit Edward, aged 44, was appointed as an independent non-executive director in August 2007. He has over 10 years of experience in power industry and is specialised in business strategy development and change management for power company. He holds a Master degree of Engineering in Mechanical Engineering from The University of Hong Kong and a Master degree of Business Administration from The Chinese University of Hong Kong. He is a Chartered Engineer, member of Institution of Mechanical Engineers and The Hong Kong Institution of Engineers.

Mr. Leung Yuen Wing, aged 44, was appointed as an independent non-executive director in September 2004. He had held managerial positions in various renowned accounting firms, an investment bank and two listed companies. He is currently the Corporate Finance Director of Samvo Group whose headquarters is in London and engaged in the online entertainment business. He is a member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants.

Directors' and Senior Management's Profiles

SENIOR MANAGEMENT

Ms. Cheng Wai Ying, aged 52, is the financial controller of the Group. She joined the Group in 1990 and is responsible for the financial management of the Group. She has over 25 years of experience in financial management and business operation management. Ms. Cheng is the sister of Mr. Cheng Kwok Woo and Mr. Cheng Kwong Cheong.

Ms. Chan Yim Fan, aged 60, is the logistics director of the Group. She joined the Group in 1990 and is responsible for the logistics of the Group including product supply, delivery, storage, raw materials as well as trading product procurement. She has over 20 years of experience in logistics management.

Mr. Chan Yee Kam, aged 50, is the sales manager of the Group. He joined the Group in 2008 and is responsible for product sales and promotion of the Group. He graduated from The Hong Kong Polytechnic University with a Diploma in Business Management. He has over 20 years of experience in the sales of abrasive products.

Mr. Lam Chi Wai, aged 38, is the marketing manager of the Group. He joined the Group in 2002 and is responsible for the sales services affairs and marketing research of the Group. He holds a Bachelor degree of Social Sciences from Hong Kong Baptist University.

Mr. Tam Kwok Kuen, aged 47, is the logistics manager of the Group. He joined the Group in 2003 and is responsible for product delivery and storage of the Group. He holds a Master degree of Business Administration from Royal Melbourne Institute of Technology University, Australia. Before joining the Group, he had worked in HSBC Group. He has more than 17 years of experience in the field of international trade.

Mr. Lee Kam Wing, aged 45, is the information technology manager of the Group. He joined the Group in 1992 and is responsible for the management of system operations and network infrastructure of the Group. He holds a Bachelor degree of Science in Computing and Networking from The Open University of Hong Kong. Before joining the Group, he had worked in the information technology sector of various listed companies in Hong Kong for 10 years.

Ms. Yip Chui Ling, aged 35, is the corporate planning analyst of the Group. She joined the Group in 2003 and is responsible for corporate planning and compliance affairs of the Group. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. She holds a Master degree of Business Administration from The Chinese University of Hong Kong.

Report of the Directors

The directors of the Company ("Directors") hereby present their annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

Details of the activities of the principal subsidiaries of the Company are set out in note 51 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31 December 2010 is set out in note 8 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 25 and 26 of this annual report.

The Directors do not recommend payment of final dividend for the year ended 31 December 2010.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 114 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year together with the reasons therefore are set out in note 40 to the consolidated financial statements.

Report of the Directors

SHARE PREMIUM AND RESERVES

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

At 31 December 2010, in the opinion of the Directors, the Company's share premium and reserves available for distribution to shareholders amounted to HK$959,141,000.

Movement in the share premium and reserves of the Group during the year are set out on page 29 of this annual report.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purposes to enable the directors of the Company to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group. Summary of the terms of the share option scheme and the movements of the share option scheme are set out in note 42 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate purchases attributable to the Group's largest supplier and the five largest suppliers taken together accounted for approximately 9.8% and 39.1% respectively of the Group's total purchases for the year.

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

RELATED PARTY TRANSACTIONS

Related party transactions during the year are disclosed in note 48 to the consolidated financial statements.

Report of the Directors

CONNECTED TRANSACTION

As disclosed in the Company's circular dated 13 December 2010, certain subsidiaries of the Company entered into an agreement with Billionlink Holdings Limited ("Billionlink") on 25 November 2009 to dispose of 100% equity interests in Magic Horizon Investment Limited and the loans due from Magic Horizon Group to Billionlink. As Billionlink is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong (both are executive directors and substantial shareholders of the Company) and Ms. Cheng Wai Ying (a then substantial shareholder of the Company), the disposal constitutes a major and connected transaction for the Company under Chapter 14A of the Listing Rules.

The disposal has been approved by the Board and the independent shareholders of the Company. The transaction was completed on 30 December 2010 and the final adjusted consideration is approximately HK$64,131,000.

DIRECTORS

The Directors during the year ended 31 December 2010 and up to the date of this report were:

Executive directors

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

Independent non-executive directors

Mr. Leung Yuen Wing
Mr. Chow Fu Kit Edward
Mr. Soong Kok Meng (resigned on 14 January 2011)

In accordance with Article 87(1) of the Company's Articles of Association, Ms. Yeung Sau Han Agnes, Mr. Tin Ka Pak and Mr. Leung Yuen Wing shall retire from offices by rotation in the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

The biographic details of the Directors are set out on page 13 of this annual report.

DIRECTORS' SERVICES CONTRACTS

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

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

Report of the Directors

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

At 31 December 2010, the Directors and chief executive of the Company have the following interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code:

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

	Number of shares/underlying shares held			
Directors	**Personal interests**	**Corporate interests**	**Total interests**	**Percentage of interests**
Mr. Cheng Kwok Woo	62,400,000	318,438,000 *(note)*	380,838,000	14.97%
Mr. Cheng Kwong Cheong	55,900,000	318,438,000 *(note)*	374,338,000	14.71%
Ms. Chan Shui Sheung Ivy	550,000	–	550,000	0.02%
Ms. Yeung Sau Han Agnes	175,000,000	–	175,000,000	6.88%

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

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

Report of the Directors

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

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

The movements of share options during the year ended 31 December 2010 are as follows:

Name of grantee	Exercise price	Exercisable period	As at 1.1.2010	Granted during the year	Exercised/ Lapsed during the year	As at 31.12.2010
	HK$					
Mr. Cheng Kwok Woo	0.075	31.10.2008–31.10.2011	6,500,000	–	(6,500,000)	–
	0.640	27.5.2010–26.5.2015	–	1,500,000	–	1,500,000
Mr. Cheng Kwong Cheong	0.075	31.10.2008–31.10.2011	6,500,000	–	(6,500,000)	–
	0.640	27.5.2010–26.5.2015	–	1,500,000	–	1,500,000
Ms. Yeung Sau Han Agnes	1.198	22.10.2007–22.10.2010	15,000,000	–	(15,000,000)	–
	0.640	27.5.2010–26.5.2015	–	175,000,000	–	175,000,000
Ms. Chan Shui Sheung Ivy	1.198	22.10.2007–22.10.2010	15,000,000	–	(15,000,000)	–
	0.640	27.5.2010–26.5.2015	–	1,500,000	(1,500,000)	–
Mr. Tin Ka Pak	0.640	27.5.2010–26.5.2015	–	1,500,000	(1,500,000)	–
Other employees	0.075	31.10.2008–31.10.2011	3,000,000	–	(3,000,000)	–
			46,000,000	181,000,000	(49,000,000)	178,000,000

Save as disclosed above, at no time during the year ended 31 December 2010 were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company to acquire such rights in any other corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules, the following persons were interested (including short positions) in the shares or underlying shares of the Company:

Interest in the ordinary shares/underlying shares of the Company:

Name	*Notes*	Number of shares/ underlying shares held	Long (L) or short (S) position	Percentage of interests
PME Investments	*1*	318,438,000	L	12.52%
Mr. Cheng Kwok Woo	*2*	380,838,000	L	14.97%
Mr. Cheng Kwong Cheong	*2*	374,338,000	L	14.71%
Ms. Tsang Sui Tuen	*3*	380,838,000	L	14.97%
Ms. Wan Kam Ping	*4*	374,338,000	L	14.71%
Crown Sunny Limited	*5*	300,000,000	L	11.79%
Mr. Wu Jia Neng	*6*	300,000,000	L	11.79%
Worldkin Development Limited	*7*	4,760,000,000	L	187.09%
		3,000,000,000	S	117.92%
Mr. Wong Lik Ping	*8*	4,760,000,000	L	187.09%
		3,000,000,000	S	117.92%
Yardley Finance Limited	*9*	3,000,000,000	L	117.92%
Mr. Chan Kin Sun	*10*	3,048,430,000	L	119.82%
Shanxi Coal Transportation and Sales Group (HK) Co., Limited ("Shanxi Coal HK")	*11*	3,320,000,000	L	130.49%
Shanxi Coal Transportation and Sales Group Co., Limited ("Shanxi Coal")	*12*	3,320,000,000	L	130.49%
Mr. Ng Leung Ho		520,000,000	L	20.44%
Mr. Ma Deguang		200,000,000	L	7.86%

Notes:

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

2. Mr. Cheng Kwok Woo personally holds 62,400,000 shares/underlying shares of the Company and Mr. Cheng Kwong Cheong personally holds 55,900,000 shares/underlying shares of the Company. Each of them is further beneficially interested in 50% of PME Investments and is accordingly deemed to be interested in the entire interests of PME Investments in the Company.

Report of the Directors

3. Ms. Tsang Sui Tuen is the spouse of Mr. Cheng Kwok Woo and is accordingly deemed to have interests in 380,838,000 shares/underlying shares of the Company that Mr. Cheng Kwok Woo has interests in.

4. Ms. Wan Kam Ping is the spouse of Mr. Cheng Kwong Cheong and is accordingly deemed to have interests in 374,338,000 shares/underlying shares of the Company that Mr. Cheng Kwong Cheong has interests in.

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

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

7. The interests represent the convertible bonds issued by the Company at a principal amount of HK$142,800,000 at a conversion price of HK$0.03 per conversion share.

8. Mr. Wong Lik Ping holds entire equity interests of Worldkin Development Limited and is accordingly deemed to have interests in the underlying shares that Worldkin Development Limited has interests in.

9. The interests represent the convertible bonds issued by the Company at a principal amount of HK$90,000,000 at a conversion price of HK$0.03 per conversion share.

10. Mr. Chan Kin Sun holds entire equity interests of Yardley Finance Limited and is accordingly deemed to have interests in the underlying shares that Yardley Finance Limited has interests in. Mr. Chan Kin Sun further personally holds 48,430,000 shares of the Company.

11. The interests represent the convertible bonds issued by the Company at a principal amount of HK$90,000,000 at a conversion price of HK$0.03 per conversion share and 320,000,000 shares of the Company.

12. Shanxi Coal holds entire equity interests of Shanxi Coal HK and is accordingly deemed to have interests in the shares/underlying shares that Shanxi Coal HK has interests in.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2010.

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 9 to 12 of this annual report.

Report of the Directors

PUBLIC FLOAT

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

AUDITOR

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

On behalf of the Board
Yeung Sau Han Agnes
Chief Executive Officer

Hong Kong, 30 March 2011

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF PME GROUP LIMITED
必美宜集團有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of PME Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 113, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong
30 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Turnover	7	**188,359**	319,588
Revenue		**156,930**	176,709
Cost of sales		**(135,575)**	(162,370)
Gross profit		**21,355**	14,339
Other income, gain and loss	9	**8,223**	13,158
Selling and distribution expenses		**(9,133)**	(12,192)
Administrative expenses		**(127,228)**	(64,368)
Increase in fair value of investment property	18	**600**	900
Loss on revaluation on buildings		**–**	(20,107)
Gain (loss) on disposal of subsidiaries	44	**7,548**	(31,787)
Gain on disposal of associates	22	**–**	97,498
Gain on disposal of convertible bonds designated as financial assets at fair value through profit or loss	27	**500**	–
Gain on disposal of available-for-sale investments	20	**13,971**	–
Gain on disposal of held for trading investments		**8,975**	26,988
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	27	**4,401**	165,370
Change in fair value of derivative financial assets	28	**10,952**	–
Impairment loss recognised in respect of loan receivables and interest receivables	30	**–**	(29,893)
(Decrease) increase in fair value of held for trading investments		**(24,096)**	17,318
Loss on deemed partial disposal of an associate	22	**–**	(6,301)
Return on advances and charge over assets granted to an associate	23	**1,500**	18,898
Share of results of associates	22	**18,353**	(1,109)
Share of result of a jointly controlled entity		**1,428**	1,356
Finance costs	10	**(26,472)**	(1,032)
(Loss) profit before taxation		**(89,123)**	189,036
Taxation	13	**(4,387)**	(29,985)
(Loss) profit for the year	14	**(93,510)**	159,051
Attributable to:			
Owners of the Company		**(93,655)**	158,359
Non-controlling interests		**145**	692
		(93,510)	159,051
(Loss) earnings per share (Expressed in HK cents)			
Basic	16	**(4.99)**	8.99
Diluted	16	**(4.99)**	8.93

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 *HK$'000*	2009 *HK$'000*
(Loss) profit for the year	**(93,510)**	159,051
Other comprehensive income		
Exchange differences on translating foreign operations		
Exchange differences arising during the year	**633**	–
Exchange differences realised upon the disposal of foreign operations during the year	**(9,007)**	–
Exchange difference realised upon the disposal of associates during the year	**–**	(567)
Share of other comprehensive income of associates	**858**	213
Transfer of investment revaluation reserve to profit or loss upon realisation of available-for-sale investments during the year	**(27,633)**	–
Net fair value gain on available-for-sale investments	**2,656**	22,774
Release of deferred tax arising on revaluation of available-for-sale investments upon disposal	**3,758**	–
Loss on revaluation on buildings	**–**	(2,533)
Deferred tax arising on revaluation on available-for-sale investments	**–**	(3,758)
Deferred tax arising on revaluation on building	**–**	1,305
Other comprehensive (expense) income for the year (net of tax)	**(28,735)**	17,434
Total comprehensive (expense) income for the year	**(122,245)**	176,485
Total comprehensive (expense) income attributable to:		
Owners of the Company	**(122,390)**	175,793
Non-controlling interests	**145**	692
	(122,245)	176,485

Consolidated Statement of Financial Position

As at 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Non-current assets			
Property, plant and equipment	17	**17,585**	20,049
Investment property	18	**4,700**	4,100
Prepaid lease payments	19	**–**	–
Available-for-sale investments	20	**110,171**	137,101
Goodwill	21	**–**	–
Interests in associates	22	**343,666**	135,449
Interest in a jointly controlled entity	24	**8,044**	7,357
Club debentures		**350**	350
Deferred tax assets	41	**12**	–
		484,528	304,406
Current assets			
Inventories	25	**25,976**	9,456
Debtors, bills receivable, deposits and prepayments	26	**124,029**	162,811
Convertible bonds designated as financial assets at fair value through profit or loss	27	**106,734**	101,319
Derivative financial assets	28	**10,952**	–
Amounts due from associates	29	**52,806**	44,631
Loan receivables	30	**72,980**	52,700
Prepaid lease payments	19	**–**	–
Taxation recoverable		**574**	574
Held for trading investments	31	**81,564**	115,159
Deposits placed with financial institutions	32	**927**	3,203
Pledged bank deposits	33	**6,200**	–
Bank balances and cash	33	**263,003**	14,591
		745,745	504,444
Assets classified as held for sale	34	**–**	83,427
		745,745	587,871
Current liabilities			
Creditors and accruals	35	**21,709**	12,270
Taxation payable		**36,743**	32,398
Obligation under a finance lease	36	**543**	–
Bank and other loans	37	**9,357**	11,515
		68,352	56,183
Liabilities directly associated with assets classified as held for sale	34	**–**	8,423
		68,352	64,606
Net current assets		**677,393**	523,265
Total assets less current liabilities		**1,161,921**	827,671

Consolidated Statement of Financial Position

As at 31 December 2010

	NOTES	2010 HK$'000	2009 HK$'000
Capital and reserves			
Share capital	40	**25,442**	18,052
Reserves		**853,928**	804,947
Equity attributable to owners of the Company		**879,370**	822,999
Non-controlling interests		**1,113**	968
Total equity		**880,483**	823,967
Non-current liabilities			
Obligation under a finance lease	36	**960**	–
Convertible bonds	38	**229,101**	–
Promissory note	39	**51,377**	–
Deferred tax liabilities	41	**–**	3,704
		281,438	3,704
		1,161,921	827,671

The consolidated financial statements on pages 25 to 113 were approved and authorised for issue by the board of directors on 30 March 2011 and are signed on its behalf by:

Cheng Kwong Cheong
Director

Yeung Sau Han Agnes
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company												
	Share capital HK$'000	**Share premium** HK$'000	**Special reserve** *(Note a)* HK$'000	**Translation reserve** HK$'000	**Share options reserve** HK$'000	**Property revaluation reserve** HK$'000	**Investment revaluation reserve** HK$'000	**Other reserve** *(Note b)* HK$'000	**Convertible bonds reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2009	17,586	860,431	(45,781)	8,664	11,928	1,228	–	–	–	(223,101)	630,955	276	631,231
Profit for the year	–	–	–	–	–	–	–	–	–	158,359	158,359	692	159,051
Other comprehensive (expense) income for the year	–	–	–	(354)	–	(1,228)	19,016	–	–	–	17,434	–	17,434
Total comprehensive (expense) income for the year	–	–	–	(354)	–	(1,228)	19,016	–	–	158,359	175,793	692	176,485
Issue of shares upon exercise of share options *(Note 40)*	25	221	–	–	(58)	–	–	–	–	–	188	–	188
Issue of shares for settlement of a liability *(Note 40)*	441	18,521	–	–	–	–	–	–	–	–	18,962	–	18,962
Share of reserves of associates	–	–	–	–	5,021	–	135	1,452	–	–	6,608	–	6,608
Disposal of associates	–	–	–	–	(9,507)	–	–	–	–	–	(9,507)	–	(9,507)
At 31 December 2009	18,052	879,173	(45,781)	8,310	7,384	–	19,151	1,452	–	(64,742)	822,999	968	823,967
At 1 January 2010	**18,052**	**879,173**	**(45,781)**	**8,310**	**7,384**	**–**	**19,151**	**1,452**	**–**	**(64,742)**	**822,999**	**968**	**823,967**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(93,655)**	**(93,655)**	**145**	**(93,510)**
Other comprehensive expense for the year	**–**	**–**	**–**	**(7,516)**	**–**	**–**	**(21,219)**	**–**	**–**	**–**	**(28,735)**	**–**	**(28,735)**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**(7,516)**	**–**	**–**	**(21,219)**	**–**	**–**	**(93,655)**	**(122,390)**	**145**	**(122,245)**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**65,000**	**–**	**–**	**–**	**–**	**–**	**65,000**	**–**	**65,000**
Issue of shares upon exercise of share options *(Note 40)*	**190**	**4,604**	**–**	**–**	**(1,674)**	**–**	**–**	**–**	**–**	**–**	**3,120**	**–**	**3,120**
Transfer to reserve upon lapse of share options	**–**	**–**	**–**	**–**	**(7,010)**	**–**	**–**	**–**	**–**	**7,010**	**–**	**–**	**–**
Recognition of equity component of convertible bonds	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**94,002**	**–**	**94,002**	**–**	**94,002**
Issue of shares upon conversion of convertible bonds *(Note 40)*	**7,200**	**15,157**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,498)**	**–**	**15,859**	**–**	**15,859**
Share of reserves of associates	**–**	**–**	**–**	**–**	**–**	**–**	**780**	**–**	**–**	**–**	**780**	**–**	**780**
At 31 December 2010	**25,442**	**898,934**	**(45,781)**	**794**	**63,700**	**–**	**(1,288)**	**1,452**	**87,504**	**(151,387)**	**879,370**	**1,113**	**880,483**

Notes:

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

(b) Other reserves represented the Group's share of capital reserve and warrant reserve of an associate.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(89,123)**	189,036
Adjustments for:		
Amortisation of prepaid lease payments	**–**	290
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	**(4,401)**	(165,370)
Change in fair value of derivative financial assets	**(10,952)**	–
Decrease (increase) in fair value of held for trading investments	**24,096**	(17,318)
Depreciation of property, plant and equipment	**4,661**	8,519
Discount on issue of shares for settlement of a liability	**–**	(3,087)
Finance costs	**26,472**	1,032
Gain on disposal of associates	**–**	(97,498)
Gain on disposal of available-for-sale investments	**(13,971)**	–
(Gain) loss on disposal of subsidiaries	**(7,548)**	31,787
Increase in fair value of investment property	**(600)**	(900)
Interest income	**(7,519)**	(8,499)
Impairment loss on trade debtors	**3,418**	5,153
Impairment loss recognised in respect of loan receivables and interest receivables	**–**	29,893
Loss on deemed partial disposal of an associate	**–**	6,301
Loss (gain) on disposal of property, plant and equipment	**4,281**	(1)
Loss on revaluation on buildings	**–**	20,107
Return on advances and charge over assets granted to an associate	**(1,500)**	(18,898)
Allowance (reversal of allowance) for inventories	**1,802**	(618)
Reversal of impairment loss on trade debtors	**(26)**	(240)
Share-based payments	**65,000**	–
Share of result of a jointly controlled entity	**(1,428)**	(1,356)
Share of results of associates	**(18,353)**	1,109
Operating cash flows before movements in working capital	**(25,691)**	(20,558)
(Increase) decrease in inventories	**(11,849)**	10,587
Decrease (increase) in debtors, bills receivable, deposits and prepayments	**12,834**	(18,309)
Increase in convertible bonds designated as financial assets at fair value through profit or loss	**(1,014)**	(86,809)
Decrease (increase) in amount due from a jointly controlled entity	**2,274**	(2,163)
Decrease (increase) in held for trading investments	**9,499**	(15,909)
Decrease in deposits placed with financial institutions	**2,276**	16,376
Increase (decrease) in creditors and accruals	**5,292**	(35,473)
Cash used in operations	**(6,379)**	(152,258)
Income tax refunded	**–**	73
NET CASH USED IN OPERATING ACTIVITIES	**(6,379)**	(152,185)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK$'000	2009 HK$'000
INVESTING ACTIVITIES		
Proceeds on disposal of available-for-sale investments	**17,924**	–
Interest received	**2,039**	5,438
Disposal of subsidiaries *(Note 44)*	**4,985**	28,506
Proceeds from disposal of property, plant and equipment	**2,119**	5
Dividend received from a jointly controlled entity	**741**	–
Increase in loans receivables	**(20,280)**	(20,118)
Increase in pledged bank deposit	**(6,200)**	–
Advances to associates	**(5,327)**	(22,672)
Purchases of available-for-sale investments	**(2,000)**	(12,653)
Purchases of property, plant and equipment	**(665)**	(1,099)
Disposal of associates	**–**	171,025
Acquisition of a subsidiary *(Note 43)*	**–**	(35)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(6,664)**	148,397
FINANCING ACTIVITIES		
Proceeds from issuance of convertible bonds	**260,700**	–
Other loans raised	**3,149**	5,866
Proceeds from issue of shares upon exercises of share options	**3,120**	188
Repayment of other loans	**(5,866)**	–
Interest paid	**(643)**	(1,014)
Repayments of obligation under a finance lease	**(175)**	(206)
Finance lease charges paid	**(24)**	(18)
Repayments of bank loans	**–**	(3,198)
NET CASH FROM FINANCING ACTIVITIES	**260,261**	1,618
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**247,218**	(2,170)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**15,976**	18,146
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(191)**	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**263,003**	15,976
Cash and cash equivalents at the end of the year, represented by:		
Bank balances and cash	**263,003**	14,591
Bank overdrafts *(Note 37)*	**–**	(94)
Bank balances and cash included in assets classified as held for sales *(Note 34)*	**–**	1,479
	263,003	15,976

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1. GENERAL

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

Other than the subsidiary established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries is Hong Kong dollars ("HK$"). The consolidated financial statements are presented in HK$.

The Company and its subsidiaries (collectively referred to as the "Group") are engaged in investment in trading of equity securities, manufacture and trading of polishing materials and investment holding. The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in Note 51.

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

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

Except as described below, the adoption of the new and revised HKFRSs in the current year had no material effect on the amounts reported in the consolidated financial statements and disclosures set out in the consolidated financial statements.

HKFRS 3 (Revised 2008) Business Combinations

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

HKFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of acquisition.

HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, the Group had acquired the entire equity interest in Able Winner International Limited, consequently, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

HKFRS 27 (as revised in 2008) Consolidated and Separate Financial Statements

In prior years, in the absence of specific requirements in HKFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under HKAS 27 (as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

The Group had applied HKAS 27 (as revised in 2008) from 1 January 2010 and had no effect on the consolidated financial statements of the Group for the current year.

Amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations issued in 2009, as part of the Improvements to HKFRSs clarifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It states that disclosure requirements of other HKFRSs do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs have specific disclosure requirement in respect of such asset (or disposal groups); or the disclosures relate to the measurement of an individual asset or assets, as part of a disposal group which follows other HKFRSs and the information is not disclosed elsewhere in the consolidated financial statement.

The amendment had no material effect on the disclosures in these consolidated financial statements.

Amendments to HKAS 17 Lease

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases and considered the leasehold land in the PRC remained as operating lease. As a result of the reassessment, the Group has not reclassified any leasehold land from operating leases to finance lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ("HK INT 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK INT 5 for the first time in the current year. HK INT 5 requires retrospective application.

In order to comply with the requirements set out in HK INT 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK INT 5, term loans with a repayment on demand clause are classified as current liabilities. This Interpretation did not have a material impact on the Group's financial statements.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Taxes: Recovery of Underlying Assets[6]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC) – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain leasehold properties, investment property and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

Basis of consolidation

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that the disposal group that is classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place prior to 1 January 2010

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

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

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

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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

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

The requirement of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

For disposal of an associate prior to 1 January 2010, the Group shall discontinue the use of the equity method from the date it ceases to have significant influence over an associate and shall account for the investment in accordance with HKAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in HKAS 31. The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset in accordance with HKAS 39.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

Where a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

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

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Disposal groups classified as held for sale are measured at the lower of the disposal groups' previous carrying amount and fair value less costs to sell.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rates applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

Property, plant and equipment

Property, plant and equipment other than leasehold land and buildings held for use in the production or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits or losses

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

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

Investment property

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

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

Intangible asset

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

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Leasing

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

The Group as lessor

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee

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

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land for own use

When a lease includes both land and building elements, the Group assess the classification of each element as a finance or operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready to their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdraft.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

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

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

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

Convertible bonds

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets (Continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

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

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities (including creditors and accruals, bank and other loans, convertible bonds and promissory note) are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds containing liability and equity components

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible bonds reserve).

In subsequent periods, the liability component of the convertible bonds are carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Equity instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

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

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

Impairment losses on tangible assets and intangible asset

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on monetary items are recognised in profit or loss in the period in which they arise.

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. reductions in the Group's ownership interests in associates or jointly controlled entity that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

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

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

Retirement benefit costs

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions

Share options granted to employees

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgements in applying the entity's accounting policies

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

Classification of land use rights

As a result of an amendment to HKAS 17 "Leases", arising from the "Improvements to HKFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land located in the PRC as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

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

Estimated impairment loss on associates

Determining whether goodwill arising on acquisition of associate is impaired requires an estimation of the future cash flows expected to arise from the associate in order to calculate the present value. Where the estimated future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2010, included in interests in associates are goodwill of approximately HK$188,302,000. Impairment assessment had been carried out at the end of the reporting date on the associate in its entirety. In the opinion of the directors, no impairment is considered necessary.

Key sources of estimation uncertainty

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

Useful lives of property, plant and equipment

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

Estimated impairment loss on trade and other debtors

The Group makes impairment loss based on an assessment of the recoverability of trade and other debtors. Allowances are applied to trade and other debtors where events or change in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. In determining whether impairment loss on debtors is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. As at 31 December 2010, the carrying amount of trade debtors is approximately HK$46,090,000 (net of impairment loss of approximately HK$9,736,000) (31 December 2009: carrying amount of approximately HK$52,768,000, net of impairment loss of approximately HK$19,858,000). No impairment loss was made on other debtors for the two years ended 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

Key sources of estimation uncertainty (Continued)

Estimated allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. During the year ended 31 December 2010, the Group recognised an allowance of approximately HK$1,802,000 (2009: reversal of allowance of approximately HK$618,000).

Estimated impairment loss on available-for-sale investments

In determining whether there is objective evidence of impairment in relation to the Group's available-for-sale investments in equity securities, the Group takes into consideration significant or prolonged decline in the market prices below the respective costs. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the consolidated income statement. As at 31 December 2010, the carrying amount of available-for-sales investments is approximately HK$110,171,000 (2009: HK137,101,000).

For the available-for-sale investment not quoted in an active market, the management use their judgement in selecting an appropriate valuation technique. Valuation techniques commonly used by the market practitioners are applied. The Group's unlisted equity instruments with carrying amount of HK$2,000,000 (2009: Nil) are valued using a discounted cash flow analysis based on the assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of these equity instruments also includes some assumptions not supported by observable market prices or rates.

Estimated impairment loss on loan and interest receivables

During the year ended 31 December 2009, the Group recognised impairment loss on loan and interest receivables from an independent third party amounting to approximately HK$29,893,000. The directors of the Company had assessed the recoverability of the loan receivables on an individual basis, and had considered the repayment history of the borrower and its ability to repay. The directors of the Company had made repeated demands without success and are of the opinion that the outstanding loan receivables as at 31 December 2009 are irrecoverable, and full impairment had been charged to the consolidated income statement accordingly. No impairment was recognised for the year ended 31 December 2010. Details of impairment assessment on loan receivables are set out in Note 30.

Fair value of convertible bonds and promissory note

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

Key sources of estimation uncertainty (Continued)

Fair value of convertible bonds designated as financial assets at fair value through profit or loss and derivatives

The directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For convertible bonds designated as financial assets at fair value through profit or loss and derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instruments. If the inputs and estimates applied in the model are different, the carrying amount of the convertible bonds designated as financial assets at fair value through profit or loss and derivatives may change. As at 31 December 2010, the carrying amount of convertible bonds designated as financial assets at fair value through profit or loss and derivatives were approximately HK$106,734,000 and HK$10,952,000 (2009: HK$101,319,000 and Nil) respectively.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes bank and other loans, obligation under a finance lease, convertible bonds, and promissory note disclosed in respective notes, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 *HK$'000*	2009 *HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)	**518,807**	253,540
Available-for-sale investments	**110,171**	137,101
Fair value through profit or loss	**188,298**	216,478
Derivative financial assets	**10,952**	–
Financial liabilities at amortised cost		
Convertible bonds	**229,101**	–
Other financial liabilities	**83,946**	23,785
	313,047	23,785

(b) Financial risk management objectives and policies

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS (Continued)

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

(i) Market risk

Currency risk

Several subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 4% (2009: 6%) of the Group's sales and approximately 9% (2009: 9%) of the Group's purchases are denominated in currencies other than the functional currency of the group entity. The management considers the Group is not exposed to significant foreign currency risk in relation to RMB as the operations and transactions of the Company's subsidiary operating in the PRC is denominated in its functional currency of RMB. The Group also has bank balances, debtors, creditors and bank loans denominated in foreign currencies. Since the fluctuation of HK$ against United States dollar ("USD") are minimal under the Linked Exchange Rate System, the management consider the Group mainly expose to the currency of Euro and Japanese Yen.

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

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

	2010	2009
	HK$'000	*HK$'000*
Assets		
USD	**377**	1,199
Japanese Yen	**1,118**	494
Euro	**190**	19
	1,685	1,712
Liabilities		
USD	**3,476**	1,587
Japanese Yen	**8,864**	9,010
Euro	**3,193**	1,177
	15,533	11,774

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS (Continued)

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

(i) Market risk (Continued)

Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in HK$ against relevant foreign currencies. 5% (2009: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for 5% (2009: 5%) change in foreign currency rates. A positive number indicates decrease in post-tax loss (2009: an increase in post-tax profit) for the year when HK$ strengthens 5% (2009: 5%) against the relevant foreign currencies. For a 5% (2009: 5%) weakening of HK$ against the relevant currencies, there would be an equal but opposite impact on the (loss) profit for the year.

	2010	2009
	HK$'000	*HK$'000*
Japanese Yen		
(Loss) profit for the year	**387**	426
Euro		
(Loss) profit for the year	**150**	58

Fair value and cash flow interest rate risk

The Group has significant loan receivables, amounts due from associates, deposits placed with financial institutions, bank balances, bank loans, obligation under a finance lease, convertible bonds and promissory note which bear interest rate risk. Loan receivables, deposits placed with financial institutions, bank balances and bank and other loans at variable rates expose the Group to cash flow interest-rate risk. Amounts due from associates, bank and other loans, obligation under a finance lease, convertible bonds and promissory note at fixed rates expose the Group to fair value interest-rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS (Continued)

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

(i) Market risk (Continued)

Fair value and cash flow interest rate risk (Continued)

Sensitivity analysis

At the end of the reporting period, assuming the variable rate deposits placed with financial institutions, loan receivables, bank balances, and bank and other loans had been outstanding for the whole year, if interest rates had increased by 200 basis points (2009: 200 basis points) and all other variables were held constant, there was an decrease in post-tax loss (2009: increase in post-tax profit) by approximately HK$5,318,000 (2009: HK$315,000). If interest rates had decreased by 200 basis points (2009: 200 basis points), there would be an equal but opposite impact on the profit/loss for the year. A 200 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

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

Other price risk

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

Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to other price risks at the reporting date. If the prices of the respective equity instruments had been 30% (2009: 30%) higher/lower:

– post-tax loss for the year ended 31 December 2010 would decrease/increase by approximately HK$56,489,000 (2009: post-tax profit would increase/decrease by approximately HK$64,943,000) as a result of the changes in fair value of held for trading investments and convertible bonds designated as financial assets at fair value through profit or loss; and

– investment revaluation reserve would increase/decrease by approximately HK$32,451,000 (2009: HK$41,130,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS (Continued)

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

(ii) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 December 2010, the Group had certain concentration of credit risk as 10% (2009: 10%) and 25% (2009: 32%) of the total trade and bills receivables were due from the Group's largest and the five largest customers respectively.

As at 31 December 2010 and 2009, the Group had significant concentration of credit risk arising from amounts due from associates as 85% (2009: 100%) of the total amounts due from associates were due from one associate.

As at 31 December 2010, the Group had certain concentration of credit risk as 58% (2009: 80%) of the total loan receivables were due from one debtor.

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

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 66% (2009: 60%) of the total trade debtors as at 31 December 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS (Continued)

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

(iii) Liquidity risk

The Group's liquidity position is monitored closely by the management of the Group. The Group relies on bank and other loans, and the issuance of convertible bonds as a significant source of liquidity. Details of the Groups' bank and other loans and convertible bonds are set out in Notes 37 and 38. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities in accordance with the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Within 1 year *HK$'000*	1-2 years *HK$'000*	3-5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amounts *HK$'000*
As at 31 December 2010					
Creditors and accruals	**21,709**	**–**	**–**	**21,709**	**21,709**
Obligation under a finance lease	**598**	**598**	**399**	**1,595**	**1,503**
Bank and other loans	**9,785**	**–**	**–**	**9,785**	**9,357**
Convertible bonds	**1,800**	**1,800**	**303,800**	**307,400**	**229,101**
Promissory note	**3,000**	**3,000**	**69,000**	**75,000**	**51,377**
	36,892	**5,398**	**373,199**	**415,489**	**313,047**
As at 31 December 2009					
Creditors and accruals	12,270	–	–	12,270	12,270
Bank and other loans	11,976	–	–	11,976	11,515
	24,246	–	–	24,246	23,785

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

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

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

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

- the fair value of derivative instruments is calculated using quoted prices.

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

Fair value measurements recognised in the consolidated statement of financial position

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

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

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

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

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For the year ended 31 December 2010

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

Fair value measurements recognised in the consolidated statement of financial position (Continued)

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Available-for-sale financial assets				
– Listed equity securities	**108,171**	**–**	**–**	**108,171**
Financial assets at FVFPL				
– Convertible bonds designated as financial assets at FVTPL	**–**	**106,734**	**–**	**106,734**
– Held for trading investments	**81,564**	**–**	**–**	**81,564**
Derivative financial assets	**10,952**	**–**	**–**	**10,952**
	200,687	**106,734**	**–**	**307,421**

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

There were no transfers between Level 1 and 2 in both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. TURNOVER

Turnover represents the amounts received and receivable from sales of polishing materials and equipments, net of allowances and returns; gross proceeds from sales of held for trading investments and interest income, during the year. An analysis of the Group's turnover for the year is as follows:

	2010	2009
	HK$'000	*HK$'000*
Sales of polishing materials and equipments	**156,929**	176,707
Gross proceeds from sales of held for trading investments	**31,429**	142,879
Interest income	**1**	2
	188,359	319,588

8. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and performance assessment focuses on the nature of the operations of the Group.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Polishing materials and equipments	– sales of polishing materials and equipments
Investment	– investments in held for trading investments, convertible bonds, available-for-sale investments, derivative financial assets and associates

As set out in Notes 34 and 44, the Group's manufacturing facilities had been disposed of pursuant to the disposal of the Disposal Group (as defined in Note 34) on 30 December 2010, however, the manufacturing process will be continued through subcontracting arrangements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION (Continued)

Information regarding the above segments is reported below.

Segment revenue and results

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

For the year ended 31 December 2010

	Polishing materials and equipments *HK$'000*	**Investment** *HK$'000*	**Consolidated** *HK$'000*
Revenue			
External sales	**156,929**	**1**	**156,930**
Segment (loss) profit	**(4,704)**	**5,994**	**1,290**
Unallocated corporate expenses			**(69,972)**
Unallocated other income and gain			**5,852**
Finance costs			**(26,293)**
Loss before taxation			**(89,123)**

For the year ended 31 December 2009

	Polishing materials and equipments *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
Revenue			
External sales	176,707	2	176,709
Segment (loss) profit	(43,420)	235,484	192,064
Unallocated corporate expenses			(7,869)
Unallocated other income and gain			5,499
Finance costs			(658)
Profit before taxation			189,036

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

As at 31 December 2010

	Polishing materials and equipments *HK$'000*	**Investment** *HK$'000*	**Consolidated** *HK$'000*
ASSETS			
Segment assets	**162,245**	**988,545**	**1,150,790**
Unallocated corporate assets			**79,483**
Consolidated total assets			**1,230,273**
LIABILITIES			
Segment liabilities	**12,725**	**10,466**	**23,191**
Unallocated corporate liabilities			**326,599**
Consolidated total liabilities			**349,790**

As at 31 December 2009

	Polishing materials and equipments *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	94,830	645,792	740,622
Assets classified as held for sale			83,427
Unallocated corporate assets			68,228
Consolidated total assets			892,277
LIABILITIES			
Segment liabilities	8,632	8,476	17,108
Liabilities associated with assets classified as held for sale			8,423
Unallocated corporate liabilities			42,779
Consolidated total liabilities			68,310

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

- all assets are allocated to reportable segments other than investment property, certain bank balances and cash, loan receivables, tax recoverable and deferred tax assets.
- all liabilities are allocated to reportable segments other than certain bank loans, convertible bonds, promissory note, taxation payable and deferred tax liabilities.

Other segment information

As at 31 December 2010

	Polishing materials and equipments *HK$'000*	Investment *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets *(Note)*	2,288	188,281	–	190,569
Depreciation of property, plant and equipment	4,049	612	–	4,661
Loss on disposal of property, plant and equipment	4,255	26	–	4,281
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	–	(4,401)	–	(4,401)
Change in fair value of derivative financial assets	–	(10,952)	–	(10,952)
Decrease in fair value of held for trading investments	–	24,096	–	24,096
Gain on disposal of subsidiaries	(7,548)	–	–	(7,548)
Gain on disposal of convertible bonds designated as financial assets at fair value through profit or loss	–	(500)	–	(500)
Gain on disposal of available-for-sale investments	–	(13,971)	–	(13,971)
Gain on disposal of held for trading investments	–	(8,975)	–	(8,975)
Share of result of associates	–	(18,353)	–	(18,353)
Share of result of a jointly controlled entity	(1,428)	–	–	(1,428)
Reversal of impairment loss on trade debtors	(26)	–	–	(26)
Impairment loss on trade debtors	3,418	–	–	3,418
Allowance on inventories	1,802	–	–	1,802
Finance costs on margin loans	–	155	–	155
Finance lease charges	24	–	–	24
Interests in associates	–	343,666	–	343,666
Interest in a jointly controlled entity	8,044	–	–	8,044
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Increase in fair value of investment property	–	–	(600)	(600)
Finance costs on bank loans and overdraft	–	–	488	488
Effective interest expenses on convertible bonds	–	–	19,909	19,909
Effective interest expenses on promissory note	–	–	5,896	5,896
Income tax expense	532	3,855	–	4,387

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8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

As at 31 December 2009

	Polishing materials and equipments HK$'000	Investment HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets *(Note)*	162	939	–	1,101
Depreciation of property, plant and equipment	7,995	524	–	8,519
Amortisation of prepaid lease payments	290	–	–	290
Gain on disposal of property, plant and equipment	–	(1)	–	(1)
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	–	(165,370)	–	(165,370)
Increase in fair value of held for trading investments	–	(17,318)	–	(17,318)
Loss on disposal of subsidiaries	–	31,787	–	31,787
Gain on disposal of held for trading investments	–	(26,988)	–	(26,988)
Loss on deemed partial disposal of an associate	–	6,301	–	6,301
Gain on disposal of associates	–	(97,498)	–	(97,498)
Share of result of associates	–	1,109	–	1,109
Share of result of a jointly controlled entity	(1,356)	–	–	(1,356)
Loss on revaluation of buildings	20,107	–	–	20,107
Reversal of impairment loss on trade debtors	(240)	–	–	(240)
Impairment loss on trade debtors	5,153	–	–	5,153
Reversal of allowance on inventories	(618)	–	–	(618)
Finance costs on margin loans	–	356	–	356
Finance lease charges	–	18	–	18
Interests in associates	–	135,449	–	135,449
Interest in a jointly controlled entity	7,357	–	–	7,357
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Impairment loss recognised in respect of loan receivables and interest receivables	–	–	29,893	29,893
Increase in fair value of investment property	–	–	(900)	(900)
Finance costs on bank loans and overdraft	–	–	658	658
Income tax expense	(674)	30,659	–	29,985

Note: Non-current assets exclude financial instruments, deferred tax asset and assets classified as held for sale.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

8. SEGMENT INFORMATION (Continued)

Revenue from major products

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

	2010 HK$'000	2009 HK$'000
Sale of polishing materials and equipments	156,929	176,707
Investment	1	2
	156,930	176,709

Geographical information

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

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

	Revenue	
	2010 HK$'000	2009 HK$'000
Hong Kong	29,035	44,011
The PRC	110,727	121,618
Other Asian regions	12,755	7,737
North America and Europe	1,018	1,027
Other countries	3,395	2,316
	156,930	176,709

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

	Carrying amount of non-current assets	
	2010 HK$'000	2009 HK$'000
Hong Kong	374,345	167,305

Information about major customers

During the two years ended 31 December 2010 and 2009, no revenues from transactions with any single external customer amounted to 10% or more of the Group's revenues.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9. OTHER INCOME, GAIN AND LOSS

	2010 HK$'000	2009 HK$'000
Interest income from banks and financial institutions	12	37
Interest income from loan receivables	5,848	5,401
Interest income from amount due from an associate *(Note 29)*	1,348	3,061
Interest income from convertible bonds designated as financial assets at fair value through profit or loss	311	–
Net foreign exchange gains	43	850
Rental income *(Note)*	39	337
Reversal of impairment loss on trade debtors	26	240
Bad debt recovered	7	–
Discount on issue of shares for settlement of a liability *(Note 40)*	–	3,087
Sundry income	589	145
	8,223	13,158

Note: During the year ended 31 December 2009, the direct operating expenses from investment property that generated rental income were approximately HK$10,000 (2010: Nil).

10. FINANCE COSTS

	2010 HK$'000	2009 HK$'000
Interests on bank loans and overdraft wholly repayable within five years	488	658
Finance lease charges	24	18
Interest on margin loans	155	356
Effective interest expenses on convertible bonds	19,909	–
Effective interest expenses on promissory note wholly repayable within five years	5,896	–
	26,472	1,032

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2009: eight) directors were as follows:

2010

Name of director	Fees	Salaries and other benefits	Share-based payments	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors					
Mr. Cheng Kwok Woo	–	1,004	539	48	1,591
Mr. Cheng Kwong Cheong	–	1,004	539	48	1,591
Ms. Yeung Sau Han, Agnes	–	300	62,844	12	63,156
Ms. Chan Shui Sheung, Ivy	–	450	539	19	1,008
Mr. Tin Ka Pak	–	450	539	12	1,001
Independent Non-executive Directors					
Mr. Leung Yuen Wing	155	–	–	–	155
Mr. Soong Kok Meng *(Note)*	155	–	–	–	155
Mr. Chow Fu Kit, Edward	155	–	–	–	155
Total for the year 2010	465	3,208	65,000	139	68,812

2009

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

No directors waived or agreed to waive any emoluments in the two years ended 31 December 2010 and 2009.

Note: Mr. Soong Kok Meng resigned as an independent non-executive director on 14 January 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2009: two) were directors of the Company whose emoluments are included in the disclosures in Note 11 above. The emoluments of the remaining one (2009: three) highest paid individuals were as follows:

	2010	2009
	HK$'000	*HK$'000*
Salaries and other benefits	**1,040**	3,113
Retirement benefits scheme contributions	**12**	32
	1,052	3,145

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
	HK$'000	*HK$'000*
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**1**	2

During the two years ended 31 December 2010 and 2009, no emoluments were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office.

13. TAXATION

	2010	2009
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation		
– Hong Kong Profits Tax	**4,345**	31,592
Deferred taxation *(Note 41)*	**42**	(1,607)
	4,387	29,985

Notes to the Consolidated Financial Statements

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13. TAXATION (Continued)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for both years.

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

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

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

	2010	2009
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(89,123)**	189,036
Tax at Hong Kong Profits Tax rate of 16.5% (2009: 16.5%)	**(14,705)**	31,191
Tax effect of share of results of associates	**(3,028)**	183
Tax effect of share of result of a jointly controlled entity	**(236)**	(224)
Tax effect of expenses not deductible for tax purpose	**18,766**	9,732
Tax effect of income not taxable for tax purpose	**(3,861)**	(17,300)
Tax effect of tax loss not recognised	**7,543**	6,476
Utilisation of tax loss previously not recognised	**(92)**	(73)
Tax charge for the year	**4,387**	29,985

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

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14. (LOSS) PROFIT FOR THE YEAR

	2010	2009
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**4,661**	8,519
Amortisation of prepaid lease payments	**–**	290
Staff costs, including directors' emoluments and share-based payments *(Note)*	**88,969**	24,650
Auditors' remuneration	**880**	851
Impairment loss on trade debtors (included in administrative expenses)	**3,418**	5,153
Allowance (reversal of allowance) for inventories (included in cost of sales)	**1,802**	(618)
Loss (gain) on disposal of property, plant and equipment	**4,281**	(1)
Cost of inventories recognised as expenses	**133,773**	162,988
Minimum lease payment in respect of rental premises	**2,358**	3,003
Share of tax of associates (included in share of results of associates)	**2,100**	1,151
Share of tax of a jointly controlled entity (included in share of results of a jointly controlled entity)	**340**	–

Note: For the year ended 31 December 2010, share-based payments of HK$65,000,000 are included in staff costs (2009: Nil).

15. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

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16. (LOSS) EARNINGS PER SHARE

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

	2010	2009
	HK$'000	*HK$'000*
(Loss) earnings		
(Loss) profit attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	**(93,655)**	158,359

Number of shares

	2010	2009
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**1,875,392**	1,761,612
Effect of dilutive potential ordinary shares:		
Share options	**–**	12,128
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**1,875,392**	1,773,740

	2010	2009
Basic (loss) earnings per share *(in HK cents)*	**(4.99)**	8.99
Diluted (loss) earnings per share *(in HK cents)*	**(4.99)**	8.93

Diluted loss per share for the year ended 31 December 2010 is the same as the basic loss per share. The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds and the exercise of the Company's share options since their exercise would result in a decrease in loss per share.

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17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
AT COST OR VALUATION					
At 1 January 2009	73,550	61,272	15,334	4,187	154,343
Additions	–	301	798	–	1,099
Disposals	–	(5)	–	–	(5)
Decrease in revaluation	(24,670)	–	–	–	(24,670)
Classified as assets held for sale	(48,880)	(26,242)	(3,248)	(1,167)	(79,537)
At 31 December 2009	–	35,326	12,884	3,020	51,230
Additions	–	240	–	2,103	2,343
Disposals	–	–	–	(350)	(350)
At 31 December 2010	**–**	**35,566**	**12,884**	**4,773**	**53,223**
ACCUMULATED DEPRECIATION					
At 1 January 2009	–	32,681	12,222	3,441	48,344
Provided for the year	2,030	5,355	884	250	8,519
Eliminated on disposals	–	(1)	–	–	(1)
Eliminated on revaluation	(2,030)	–	–	–	(2,030)
Classified as assets held for sale	–	(19,768)	(2,768)	(1,115)	(23,651)
At 31 December 2009	–	18,267	10,338	2,576	31,181
Provided for the year	–	3,505	911	245	4,661
Eliminated on disposals	–	–	–	(204)	(204)
At 31 December 2010	**–**	**21,772**	**11,249**	**2,617**	**35,638**
CARRYING VALUES					
At 31 December 2010	**–**	**13,794**	**1,635**	**2,156**	**17,585**
At 31 December 2009	–	17,059	2,546	444	20,049

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17. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

Leasehold land and buildings	Over the shorter of the term of leases or 50 years
Plant and machinery	10 years
Leasehold improvements, furniture and fixtures	4 to 5 years
Motor vehicles	3 to 5 years

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

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

As at 31 December 2009, if the leasehold land and buildings of the Group had not been revalued, they would have been included at historical cost less accumulated depreciated at the carrying values of approximately HK$69,632,000.

At 31 December 2010, motor vehicles included an amount of approximately HK$1,636,000 in respect of assets held under a finance lease (2009: Nil).

At 31 December 2009, buildings included in assets classified as held for sale with an aggregate carrying values of approximately HK$48,880,000 were pledged to banks to secure banking facilities granted to the Group. No assets were pledged as at 31 December 2010.

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18. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1 January 2009	3,200
Increase in fair value recognised in the consolidated income statement	900
At 31 December 2009 and 1 January 2010	4,100
Increase in fair value recognised in the consolidated income statement	600
At 31 December 2010	**4,700**

The investment property of the Group was revaluated by Jointgoal Surveyors Limited (2009: Fame China (Consultancy) Limited), an independent firm of registered professional surveyors not connected to the Group. Jointgoal Surveyors Limited (2009: Fame China (Consultancy) Limited) are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation of the investment property at 31 December 2010 and 2009 was arrived at by reference to comparable transactions as available on the market.

The above investment property is located in Hong Kong and held under medium-term lease.

19. PREPAID LEASE PAYMENTS

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

	2010 ***HK$'000***	2009 *HK$'000*
Analysed for reporting purposes as:		
Non-current asset	–	10,730
Current asset	–	290
	–	11,020
Classified as assets held for sale	–	(11,020)
	–	–

At 31 December 2009, leasehold land included in assets classified as held for sale with a carrying value of approximately HK$11,020,000 was pledged to a bank to secure a banking facility granted to the Group. During the year ended 31 December 2010, the leasehold land had been disposed of pursuant to the disposal of the Disposal Group (as defined in Note 34). Further details are set out in Note 34.

Notes to the Consolidated Financial Statements

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20. AVAILABLE-FOR-SALE INVESTMENTS

	2010 HK$'000	2009 HK$'000
Equity securities listed in Hong Kong, at fair value based on quoted market bid price		
Carrying amount at 1 January	137,101	66
Addition *(Note (a))*	–	110,308
Reclassified from interests in associates *(Note (b))*	–	3,953
Net fair value gain on available-for-sale investments recognised in consolidated statement of comprehensive income	2,656	22,774
Disposal	(31,586)	–
Carrying amount at 31 December	108,171	137,101
Unlisted equity securities *(Note (c))*	2,000	–
	110,171	137,101

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

As at 31 December 2010, the Group held approximately 15.79% (2009: 18.85%) equity interests in China Fortune.

Note (b): As at 1 January 2009, the Group held approximately 29.29% equity interests in China Oriental Culture Group Limited (formerly known as ZZNode Technologies Company Limited, "China Oriental"), a company listed on the Main Board of the Stock Exchange, and classified China Oriental as an associate of the Group.

During the year ended 31 December 2009, the Group had partially disposed of its interests in China Oriental, being the disposal of an aggregate of approximately 102,000,000 shares in China Oriental in the open market, representing approximately 25.19% equity interests in China Oriental previously held by the Group, for a net cash consideration of approximately HK$111,438,000. Upon the partial disposal of shares in China Oriental, the directors of the Company were of the opinion that the Group would no longer possess significant influence over the financing and operating policy decision of China Oriental and would hold the remaining shares for long-term investment and capital appreciation purposes. Immediately after the disposal, the Group's remaining interests in China Oriental (representing approximately 4.10% of the issued share capital of China Oriental at the time of the disposal) with a carrying amount of approximately HK$3,953,000 was reclassified to available-for-sale investments.

During the year ended 31 December 2010, the Group had disposed of its remaining interests in China Oriental for a cash consideration of approximately HK$17,924,000. A gain on disposal of approximately HK$13,971,000 was recognised in the consolidated income statement during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

20. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Note (c): During the year ended 31 December 2010, the Company acquired 2,000,000 shares in Collectors Watch & Jewelry Company Limited ("Collectors"), a private limited company incorporated in Hong Kong, representing 12.5% equity interest in the entire issued share capital of Collectors.

The investment in Collectors is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. GOODWILL

	HK$'000
COST	
At 1 January 2009	161,008
Arising on acquisition of a subsidiary *(Note 43)*	35
Disposal of a subsidiary *(Note 44)*	(35)
At 31 December 2009, 1 January 2010 and 31 December 2010	161,008
ACCUMULATED IMPAIRMENT LOSS	
At 1 January 2009, 31 December 2009, 1 January 2010 and 31 December 2010	161,008
CARRYING VALUES	
At 31 December 2009 and 31 December 2010	–

During the year ended 31 December 2009, the Group acquired Able Entertainment Limited ("Able Entertainment") with goodwill of approximately HK$35,000. Details are set out in Note 43.

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

The goodwill was fully impaired as at 31 December 2010 and 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

22. INTERESTS IN ASSOCIATES

	2010 *HK$'000*	2009 *HK$'000*
Cost less accumulated impairment of investment in associates		
– Listed in Hong Kong	**174,635**	174,635
– Unlisted	**188,228**	2
Share of post-acquisition results and other comprehensive income	**(19,197)**	(39,188)
	343,666	135,449
Fair value of listed investments	**39,324**	69,018

China Railway

During the year ended 31 December 2009, China Railway Logistics Limited ("China Railway"), a company incorporated in Bermuda and its shares are listed on the Growth Enterprise Market of the Stock Exchange, issued shares as part of the purchase consideration for the acquisition of a subsidiary. As a result, the Group's interest in China Railway was diluted by 0.7% and resulted in a loss on deemed partial disposal of approximately HK$6,301,000.

As at 31 December 2010, the Group held approximately 14.23% (2009: 14.23%) equity interests in China Railway. The fair value of the shares as at 31 December 2010 was approximately HK$39,324,000 (2009: HK$69,018,000).

China Oriental

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

China Bio-Med

On 12 March 2009, the Group and Vital-Gain Global Limited, an independent third party, entered into an agreement for the disposal of the Group's 21.92% of the entire issued share capital of China Bio-Med Regeneration Technology Limited ("China Bio-Med"), a company listed on the Growth Enterprise Market of the Stock Exchange, at the date of the agreement, for a consideration of HK$60,000,000. The disposal was completed on 5 June 2009 and resulted in a gain on disposal of approximately HK$9,322,000. Immediately after the disposal, the Group's remaining interests in China Bio-Med of approximately HK$1,802,000 was reclassified to held for trading investments, and was subsequently disposed of during the year ended 31 December 2009.

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22. INTERESTS IN ASSOCIATES (Continued)

Express Advantage

At 1 January 2009, the Group held 100% equity interest in Express Advantage Limited ("Express Advantage") and was consolidated with the Group. During the year ended 31 December 2009, the Group had disposed of 800 shares in Express Advantage, representing 80% of the equity interests in Express Advantage, upon which Express Advantage became an associate of the Group. Details of which are set out in Note 44.

Giant Billion

As detailed in Note 26, on 1 February 2010, the Group acquired 49% equity interest in Giant Billion Limited ("Giant Billion"), a company incorporated in Hong Kong with limited liability. The cost of investment in Giant Billion is approximately HK$188,226,000.

As at 31 December 2010 and 2009, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of Shares held	Proposition of nominal value of issued capital held by the Group 2010	2009	Principal activities
China Railway	Incorporated	Bermuda	Hong Kong	Ordinary shares	**14.23%**	14.23%	Provision of telecommunication and computer technology solutions
Express Advantage	Incorporated	British Virgin Island	Hong Kong	Ordinary shares	**20%**	20%	Investments in trading equity securities
Giant Billion	Incorporated	Hong Kong	Hong Kong	Ordinary shares	**49%**	–	Provision of marketing, promotion, business consulting and technical services

As at 31 December 2010, included in the cost of investment in associates is goodwill of HK$188,302,000 (2009: Nil) arising on acquisition of an associate. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 January 2010	–
Acquisition of an associate	188,302
At 31 December 2010	**188,302**

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22. INTERESTS IN ASSOCIATES (Continued)

As at 1 January 2009, included in the cost of investment in associates is goodwill of HK$57,493,000. The impairment of HK$43,674,000 brought forward had been reversed during the year ended 31 December 2009 upon the disposal of the Group's investment in China Bio-Med on 12 March 2009. The movement of goodwill is set out below:

	HK$'000
ACCUMULATED IMPAIRMENT	
At 1 January 2009	43,674
Disposal of associate	(43,674)
At 31 December 2009, 1 January 2010 and 31 December 2010	–

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

	2010	2009
	HK$'000	*HK$'000*
Total assets	**1,241,798**	1,060,962
Total liabilities	**(103,182)**	(86,748)
Non-controlling interests	**(17,202)**	(17,335)
Net assets	**1,121,414**	956,879
Group's share of net assets of associates	**343,666**	135,449
Turnover	**68,435**	8,916
Profit (loss) for the year	**153,141**	(3,083)
Group's share of results of associates for the year	**18,353**	(1,109)

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

As set out in Notes 22 and 44 respectively, during the year ended 31 December 2009, the Group disposed of its 80% equity interests in Express Advantage to an independent third party (the "Acquirer"),

During the year ended 31 December 2009, the Group had made advances of HK$22,672,000 (Note 29) and pledged certain of its listed securities with a total market value of approximately HK$1,270,000 (2009: HK$3,190,000) to secure against the margin facilities granted by a financial institution to Express Advantage. As a return for the advances provided and charge over the Group's assets against the margin facilities granted, the Group and the Acquirer had entered into an agreement, pursuant to which the Group shall be entitled to a 50% share of the trading profits from that securities account until the full settlement of the advances and the release of charge over the Group's assets.

For the year ended 31 December 2010 and 2009, the Group's listed securities which have been pledged to secure against the margin facilities granted by a financial institution to an associate are included in the held for trading investments in the consolidated statement of financial position.

24. INTEREST IN A JOINTLY CONTROLLED ENTITY

During the year ended 31 December 2007, the Group established a jointly controlled entity, Shanghai PME-XINHUA Polishing Materials Systems ("Shanghai PME-XINHUA") with another venturer. As at 31 December 2010 and 2009, the Group had interest in Shanghai PME-XINHUA as follows:

Name of entity	Nominal value of registered capital	Country of registration and operation	Class of Shares held	Proportion of nominal value of registered capital held by the Group		Group's percentage of voting power and profit sharing		Principal activity
				2010	2009	**2010**	2009	
Shanghai PME-XINHUA	RMB10,000,000	PRC	Registered capital	**60%**	60%	**60%**	60%	Manufacturing and trading of polishing materials

	2010	2009
	HK$'000	*HK$'000*
Cost of unlisted investment in a jointly controlled entity	**5,983**	5,983
Share of post-acquisition results, net of dividends received	**2,061**	1,374
	8,044	7,357

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For the year ended 31 December 2010

24. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

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

	2010	2009
	HK$'000	*HK$'000*
Current assets	**16,516**	14,666
Non-current assets	**1,574**	1,804
Current liabilities	**(3,129)**	(2,841)
Income	**28,581**	22,540
Expenses	**(26,201)**	(20,280)

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

25. INVENTORIES

	2010	2009
	HK$'000	*HK$'000*
Raw materials	**6,334**	–
Finished goods	**19,642**	9,456
	25,976	9,456

During the year ended 31 December 2010, an allowance for inventories of approximately HK$1,802,000 has been recognised and included in cost of sales.

During the year ended 31 December 2009, a reversal of allowance for inventories of approximately HK$618,000 has been recognised and included in cost of sales as the corresponding inventories were either sold or used.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

26. DEBTORS, BILLS RECEIVABLE, DEPOSITS AND PREPAYMENTS

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

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

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**13,968**	22,260
31 to 60 days	**21,206**	16,892
61 to 90 days	**5,741**	7,542
Over 90 days	**5,175**	6,074
	46,090	52,768
Bills receivable	**–**	375
Other debtors, deposits and prepayments *(Note)*	**77,939**	109,668
	124,029	162,811

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

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

The Group's neither past due nor impaired trade receivables with aggregated carrying amount of approximately HK$41,534,000 (2009: HK$43,982,000) mainly represent sales made to creditworthy customers for whom there was no recent history of default. The Group does not hold any collateral over these balances.

Included in the Group's receivable balance are debtors with aggregate carrying amount of approximately HK$4,556,000 (2009: HK$8,786,000) which are past due at the reporting date but are regarded as not impaired as there has not been a significant change in the credit standing of the debtors. The Group does not hold any collateral over these balances. The average age of these receivable is 97 days (2009: 112 days).

Notes to the Consolidated Financial Statements

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

Aging of trade debtors which are past due but not impaired

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**2,498**	2,951
31 to 60 days	**1,562**	839
61 to 90 days	**267**	55
Over 90 days	**229**	4,941
	4,556	8,786

Movements in the accumulated impairment losses

	2010	2009
	HK$'000	*HK$'000*
Balance at beginning of the year	**19,858**	14,945
Reversal of impairment loss	**(26)**	(240)
Impairment loss recognised in consolidated income statement	**3,418**	5,153
Written off	**(13,514)**	–
Balance at end of the year	**9,736**	19,858

Included in the accumulated impairment losses are individually impaired receivables with an aggregate balance of HK$4,058,000 (2009: HK$14,180,000) which have either been in disputes with the Group or are in financial difficulties. The Group does not hold any collateral over these receivables.

Note:

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

Also included in other debtors, deposits and prepayments as at 31 December 2009 was deposit paid for a potential investment of HK$80,000,000. On 19 May 2009, the Group entered into a formal agreement with an independent third party to acquire 49% equity interests in Giant Billion, at a consideration of HK$200,000,000.

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

Note: (Continued)

The consideration was to be satisfied in the following manner:

(1) HK$80,000,000 by utilisation of the above-mentioned deposits included in other debtors, deposits and prepayments;

(2) HK$60,000,000 by the issuance of convertible bonds by the Company (Note 38); and

(3) HK$60,000,000 by the issuance of promissory note (Note 39).

Details have been set out in the Company's announcements dated 3 June 2009 and 5 January 2010 and the circular of the Company dated 7 September 2009. The transaction was completed on 1 February 2010, upon which Giant Billion was accounted for as an associate of the Group (Note 22).

Included in debtors, bills receivable, deposits and prepayments as at 31 December 2010 are receivables of approximately HK$57,531,000 due from the Purchaser (as defined in Note 34) for the disposal of the Disposal Group (as defined in Note 34), representing the balance of the consideration receivable for the disposal.

On 6 August 2010, the Group entered into a memorandum of understanding (the "MOU") with an independent third party in relation to the intention of investment in a property redevelopment project. A refundable deposit of HK$14,000,000 was paid by the Group upon execution of the MOU. On 1 February 2011, the Group further entered into a supplementary MOU to extend the due diligence review for six months. Up to the date of this report, no formal agreements have been entered into by the Group in respect of this project.

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

	2010	2009
	HK$'000	*HK$'000*
Convertible bonds designated as financial assets at fair value through profit or loss		
Asia Energy Bond *(Note (a))*	**–**	–
China Fortune CB1 *(Note (b))*	**16,401**	12,000
China Fortune CB2 *(Note (b))*	**82,510**	80,000
China Agrotech Bond *(Note (c))*	**7,823**	9,319
Hembly Bond *(Note (d))*	**–**	–
	106,734	101,319

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

Note (a): As at 1 January 2009, the Group held a two-year 2% coupon rate convertible bond ("Asia Energy CB1") with a principal amount of HK$5,000,000 issued by Asia Energy Logistics Group Limited ("Asia Energy") which was acquired in 2008 from a subsidiary of Heng Xin China Holdings Limited ("Heng Xin"), of which Ms. Yeung Sau Han, Agnes, a director of the Company, was also one of the directors, at a consideration of approximately HK$6,332,000. The Group had designated the convertible bond as financial assets at fair value through profit or loss.

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

Asia Energy, Heng Xin and Sunny Global were companies listed on the Main Board of the Stock Exchange. Both convertible bonds could be converted, in an amount of not less than HK$1,000,000, into new ordinary shares of Asia Energy at any time within a period of two years following the date of issue at a conversion price of HK$0.05 per share.

During the year ended 31 December 2009, the investments in the Asia Energy CB1 and CB2 had been disposed of pursuant to the disposal of subsidiaries, Maxcash Investment Limited and its subsidiaries. Details are set out in Note 44. A fair value gain of approximately HK$37,125,000 was recognised at disposal date.

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

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

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

Note (b): (Continued)

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

During the year ended 31 December 2010, the Group further acquired China Fortune CB1 with a principal amount of HK$1,000,000 at a consideration of approximately HK$1,014,000.

A total fair value gain of approximately HK$5,897,000 was recognised in the consolidated income statement for the year ended 31 December 2010 (2009: HK$126,126,000).

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

A fair value loss of approximately HK$1,496,000 was recognised in the consolidated income statement for the year ended 31 December 2010 (2009: fair value gain of approximately HK$2,119,000).

Note (d): As detailed in Note 26, the acquisition of the Hembly Bond had been completed on 4 January 2010. The investment in the Hembly Bond had been subsequently disposed of for a consideration of HK$20,500,000, resulting in a gain on disposal of HK$500,000.

For the year ended 31 December 2010 and 2009, fair value of all convertible bonds had been determined in accordance with a valuation report issued by Grant Shermen Appraisal Limited, an independent valuer not connected to the Group, using the Binomial Option Pricing Model.

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

Binominal option pricing model is used for valuation for the convertible bonds designated at financial assets at fair value through profit or loss. The inputs into the mode of each convertible bond as at 31 December 2010 and 2009 were as follows:

	2010	2009
China Fortune CB1		
Stock price	**HK$0.41**	HK$0.40
Conversion price	**HK$0.10**	HK$0.10
Volatility	**62.03%**	42.12%
Dividend yield	**0%**	0%
Option life *(years)*	**1.13**	2.13
Risk free rate	**0.390%**	0.692%
China Fortune CB2		
Stock price	**HK$0.41**	HK$0.40
Conversion price	**HK$0.16**	HK$0.16
Volatility	**61.31%**	42.12%
Dividend yield	**0%**	0%
Option life *(years)*	**1.50**	2.50
Risk free rate	**0.477%**	0.692%
China Agrotech Bond		
Stock price	**HK$0.79**	HK$0.83
Conversion price	**HK$0.90**	HK$0.90
Volatility	**50.18%**	77.1%
Dividend yield	**0%**	0%
Option life *(years)*	**0.56**	1.43
Risk free rate	**0.315%**	0.400%

28. DERIVATIVE FINANCIAL ASSETS

	2010	2009
	HK$'000	*HK$'000*
Investment in warrants and options	**10,952**	–

The amount represented the fair value of the Group's investment in unlisted warrants and options issued by certain companies listed on the Stock Exchange.

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29. AMOUNTS DUE FROM ASSOCIATES

The amounts are unsecured, non-interest bearing and repayable on demand except for an amount of approximately HK$19,929,000 (2009: HK$22,672,000) which bears interest at 8% per annum and repayable on demand.

30. LOAN RECEIVABLES

The loans were made to independent third parties and were repayable within one year. Interests were charged at 5% to 12% or prime rate plus 3% or 5% (2009: 10% to 12% or prime rate plus 3% or 5%) per annum on the outstanding balances of the loans.

At 31 December 2010, loan receivables with an aggregate carrying amount of HK$42,000,000 (2009: HK$42,000,000) were secured by listed equity shares with a market value of approximately HK$21,753,000 (2009: HK$38,860,000), of which HK$22,000,000 (2009: HK$12,000,000) were further secured by personal guarantees provided by independent third parties.

Included in the loan receivables as at 31 December 2009 was an unsecured loan with principal amount of approximately HK$26,068,000. The loan was originally due for repayment in July 2009, despite the repeated demands made by the Group, the borrower failed to make repayment. At 31 December 2009, the directors of the Company are of the opinion that the recoverability of such outstanding balance is uncertain due to default in payment by the borrower. Accordingly, an impairment loss of HK$26,068,000 and interest receivable of approximately HK$3,825,000 had been recognised during the year ended 31 December 2009.

31. HELD FOR TRADING INVESTMENTS

	2010	2009
	HK$'000	*HK$'000*
Listed securities:		
Equity securities listed in Hong Kong, at fair value	**81,564**	115,159

32. DEPOSITS PLACED WITH FINANCIAL INSTITUTIONS

The deposits placed with financial institutions are for trading in securities. The deposits carry interest at market rates which range from 0.004% to 0.05% (2009: 0.004% to 0.05%) per annum.

33. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.001% to 0.45% (2009: 0.04% to 0.2%) per annum. For the year ended 31 December 2010, the pledged deposits carry fixed interest rate of 0.001% per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Pledged bank deposits represents deposits pledged to banks to secure short-term banking facilities granted to the Group and are therefore classified as current assets.

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

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

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

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

On 25 November 2009, Best Chief entered into a processing agreement amended by a supplemental agreement dated 22 November 2010 (collectively the "Master Processing Agreement") with the Purchaser pursuant to which Best Chief and/or its subsidiaries and nominees conditionally agreed to supply raw materials each year to the Purchaser and/or its subsidiaries or nominees for further processing, for a term of three years commencing from the date of completion of the disposal of Magic Horizon.

On 9 April 2010, the Vendors and the Purchaser entered into a supplementary agreement to extend the execution of the Agreement to 30 July 2010. On 28 April 2010, the Vendors and the Purchaser entered into a second supplemental agreement to amend certain provisions relating to the calculation of the final consideration under the Agreement. Further details have been set out in the Company's announcements dated 30 April 2010 and the Company's circular dated 13 December 2010. The transaction was completed on 30 December 2010 and the final adjusted consideration is approximately HK$64,131,000 (Note 44).

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

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

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

Notes:

(a) The balance was unsecured, interest-free, aged within 30 to 60 days and was not past due as at 31 December 2009.

(b) As at 31 December 2009, an amount of approximately HK$8,374,000 relating to the Disposal Group classified as held for sale had been recognised in other comprehensive income and accumulated in equity.

(c) The disposal had been completed on 30 December 2010. Further details are set out in Note 44.

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35. CREDITORS AND ACCRUALS

The aged analysis of the trade creditors presented based on the invoice date at the end of the reporting period of approximately HK$9,676,000 (2009: HK$6,620,000) which are included in the creditors and accruals in the consolidated statement of financial position is as follows:

	2010	2009
	HK$'000	*HK$'000*
Within 30 days	**3,774**	4,561
31 to 60 days	**4,467**	982
61 to 90 days	**1,405**	750
Over 90 days	**30**	327
	9,676	6,620
Other creditors and accruals	**12,033**	5,650
	21,709	12,270

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

36. OBLIGATION UNDER A FINANCE LEASE

Analysed for reporting purposes as:

	2010	2009
	HK$'000	*HK$'000*
Current liabilities	**543**	–
Non-current liabilities	**960**	–
	1,503	–

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36. OBLIGATION UNDER A FINANCE LEASE (Continued)

The lease term of the finance lease was three (2009: three) years. Interest rate is fixed at 5.70% (2009: 9.24%) per annum at the contract date. No arrangements have been entered into for contingent rental payments. The finance lease outstanding as at 1 January 2009 had been fully repaid during the year ended 31 December 2009.

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance lease:				
Within one year	**598**	–	**543**	–
In more than one year, but not more than two years	**598**	–	**568**	–
In more than two years, but not more than five years	**399**	–	**392**	
	1,595	–	**1,503**	–
Less: future finance charges	**(92)**	–		N/A
Present value of lease obligation	**1,503**	–		
Less: Amount due for settlement within twelve months (shown under current liabilities)			**(543)**	–
Amount due for settlements after twelve months			**960**	–

The obligation under a finance lease is denominated in HK$.

At 31 December 2010, the Group's obligation under a finance lease was secured by the lessor's charge over the leased assets. At 31 December 2009, the charge over the leased assets had been discharged upon full settlement of the finance lease during the year ended 31 December 2009.

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37. BANK AND OTHER LOANS

	2010 HK$'000	2009 HK$'000
Bank loans repayable within one year:		
Bank overdraft	–	94
Other bank loans	6,208	5,555
Margin loans with financial institutions other than banks	3,149	5,866
	9,357	11,515
Analysed as:		
Secured	9,357	5,866
Unsecured	–	5,649
	9,357	11,515

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

	2010 HK$'000	2009 HK$'000
Fixed-rate loans	3,149	5,960
Variable-rate loans	6,208	5,555
	9,357	11,515

The Group's variable-rate loans carry interest at the London Interbank Offered Rate ("LIBOR") plus a margin.

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

	2010	2009
Effective interest rate		
Fixed-rate loans	8.75% to 11.25%	5.25% to 9.79%
Variable-rate loans	LIBOR + 3%	LIBOR + 3%

For the year ended 31 December 2009, the secured bank loans were secured by the Group's property, plant and equipment (Note 17) and prepaid lease payments (Note 19). For the year ended 31 December 2010, the bank loans were secured by the Group's bank deposits (Note 33).

For the year ended 31 December 2010, the margin loans were secured by the listed securities held under the margin accounts, with a total market value of approximately HK$40,189,000 (2009: HK$104,882,000).

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38. CONVERTIBLE BONDS

(a) On 1 February 2010, the Company issued convertible bonds ("CB1") with principal amount of HK$60,000,000 as partial settlement of the consideration for the acquisition of 49% equity interest in Giant Billion as detailed in Note 26.

CB1 will be due on 1 February 2013 and carries interest at 3% per annum payable annually in arrears with the first interest payment falling due twelve months from the date of issue and thereafter on the last day of each successive yearly period. CB1 entitles the holder to convert the bonds, in an amount not less than HK$500,000, into new ordinary shares of the Company at a conversion price, subject to adjustment, of HK$0.20 per share during the period commencing from the date of issue and ending on the date that falls on the fifth day immediately before the maturity date. Unless previously converted, all CB1 outstanding on maturity date shall be redeemed by the Company at its principal amount outstanding in HK$.

CB1 contains two components, liability and equity elements. The equity element is presented in equity headed "convertible bonds reserve". The effective interest rate of the liability component is 13.36% per annum.

The movement of the liability component of CB1 for the year is set out below:

	HK$'000
Liability component on initial recognition	45,410
Interest charged *(Note 10)*	5,552
Interest payable	(1,647)
Carrying amount at the end of the year	49,315

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38. CONVERTIBLE BONDS (Continued)

(b) On 27 May 2010, the Company issued zero coupon convertible bonds ("CB2") with a principal amount of HK$264,000,000 due on 27 May 2013 for the Company's general working capital. Details of CB2 are set out in the Company's announcements dated 11 January 2011, 7 April 2010 and 21 April 2010 and the circular dated 25 April 2010.

CB2 entitles the holder to convert the bonds, in multiples of HK$1,200,000, into new ordinary shares of the Company at a conversion price, subject to adjustment, of HK$0.03 per share during the period commencing from the 90th day after the date of issue and ending on the date that falls on the fifth day immediately before the maturity date. The holder shall not convert and the Company shall not issue any conversion shares if, upon such issue, (a) the holder and the parties acting in concert with it shall be interested in 30% (or such amount as may from time to time that may trigger a mandatory general offer or considered by the Securities and Futures Commission as a change in control of the Company) or more of the then enlarged issued share capital of the Company at the date of the relevant conversion, (b)(i) each of any of the shareholders holding more than 20% or more of the voting rights of the Company; and (ii) the holder and the parties acting in concert with it will hold 20% or more of the voting rights of the Company respectively; or (c) the public float of the Company falls below 25% of the issued share capital of the Company. Unless previously converted or redeemed, the Company (i) may at any time after 12 months from the date of issue, the Company may redeem all or part of CB2 at a redemption amount equal to 100% of the principal amount; and (ii) shall redeem the CB2 at its principal amount on maturity date.

CB2 contains two components, liability and equity elements. The equity element is presented in equity headed "convertible bonds reserve". The effective interest rate of the liability component is 12.87% per annum.

The movement of the liability component of CB2 for the year is set out below:

	HK$'000
Liability component on initial recognition	181,288
Interest charged *(Note 10)*	14,357
Conversion during the year	(15,859)
Carrying amount at the end of the year	179,786

The holders of CB2 have exercised the conversion right to convert an aggregate principal amount of HK$21,600,000 of the convertible bonds into a total 720,000,000 ordinary shares in two conversions on 19 November 2010 and 6 December 2010. The principal amount remaining outstanding after the conversion was approximately HK$242,400,000.

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39. PROMISSORY NOTE

On 1 February 2010, the Company issued an unsecured promissory note with principal amount of HK$60,000,000 as part of the consideration for the acquisition of 49% equity interest in Giant Billion as detailed in Note 26.

The promissory note bears interest of 5% per annum and is repayable within three years from the date of issue.

The promissory note is measured at amortised cost, using effective interest rates at 13.36%.

The movement of the promissory note is set out below:

	HK$'000
On initial recognition	48,226
Interest charged *(Note 10)*	5,896
Interest payable	(2,745)
At 31 December 2010	51,377

40. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		**Share capital**	
	2010	2009	**2010**	2009
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At beginning of year	**10,000,000**	10,000,000	**100,000**	100,000
Increase on 11 May 2010 *(Note (a))*	**5,000,000**	–	**50,000**	–
At end of year	**15,000,000**	10,000,000	**150,000**	100,000
Issued and fully paid:				
At beginning of year	**1,805,198**	1,758,600	**18,052**	17,586
Issue of shares upon exercise of share options *(Note (b))*	**19,000**	2,500	**190**	25
Issue of shares for settlement of a liability *(Note (c))*	**–**	44,098	**–**	441
Issue of shares upon conversion of convertible bonds *(Note (d))*	**720,000**	–	**7,200**	–
At end of year	**2,544,198**	1,805,198	**25,442**	18,052

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40. SHARE CAPITAL (Continued)

Note:

(a) On 26 April 2010, in anticipation of the issue of shares upon the conversion of the convertible bonds, the Company proposed to increase the authorised share capital of the Company from HK$100,000,000 divided into 10,000,000,000 shares of HK$0.01 each to HK$150,000,000 divided into 15,000,000,000 shares of HK$0.01 each by the creation of additional 5,000,000,000 unissued shares of HK$0.01 each. A circular detailing the proposed capital increase was made on 26 April 2010. An ordinary resolution by the shareholders was duly passed at the Extraordinary General Meeting of the Company held on 11 May 2010 and the proposed increase in authorised capital of the Company was approved.

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

During the year ended 31 December 2010, certain directors of the Company and employee of the Group had exercised an aggregate of 16,000,000 share options at a subscription price of HK$0.075 per share and an aggregate of 3,000,000 share options at a subscription price of HK$0.64, for a total consideration of HK$3,120,000, resulting in the issue of an aggregate of 19,000,000 new ordinary shares of HK$0.01 each. The new shares rank pari passu with the existing shares in all respect.

(c) On 6 July 2009, the Company entered into a deed to settle the consideration payable in relation to the acquisition of China Bio-Med during the year ended 31 December 2008. The consideration payable was to be settled by cash of HK$12,000,000 and the remaining consideration payable of approximately HK$22,049,000 by way of issuing 44,097,600 shares in the Company valued at HK$0.50 per share. The closing price of the Company's shares was HK$0.43 per share at the date of issue. The issue of shares in lieu of cash settlement had resulted in a discount on issue of shares for settlement of a liability of approximately HK$3,087,000, which had been recognised as other income in the consolidated income statement. The new shares rank pari passu with the existing shares in all respects.

(d) On 19 November 2010 and 6 December 2010, the holders of CB2 converted an aggregate principal amount of HK$21,600,000 of CB2 into a total of 720,000,000 ordinary shares of HK$0.01 each in the Company. These shares rank pari passu with the existing shares in all respects. The details of conversion are as follows:

Conversion date	Number of ordinary shares of HK$0.01 each	Price per share	Conversion principal amount
		HK$	*HK$*
19 November 2010	**200,000,000**	**0.03**	**6,000,000**
6 December 2010	**520,000,000**	**0.03**	**15,600,000**
	720,000,000		**21,600,000**

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41. DEFERRED TAXATION

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

	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Revaluation of available-for-sale investments *HK$'000*	Tax losses recognised *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 1 January 2009	2,230	1,305	–	(1,024)	(59)	2,452
(Credit) charge to consolidated income statement for the year	(1,218)	–	–	(406)	17	(1,607)
(Credit) charge to consolidated statement of comprehensive income for the year	–	(1,305)	3,758	–	–	2,453
At 31 December 2009	1,012	–	3,758	(1,430)	(42)	3,298
Attributable to disposal of subsidiaries	–	–	–	406	–	406
(Credit) charge to consolidated income statement for the year	(663)	–	–	663	42	42
Credit to consolidated statement of comprehensive income for the year	–	–	(3,758)	–	–	(3,758)
At 31 December 2010	**349**	**–**	**–**	**(361)**	**–**	**(12)**

As at 31 December 2010, the Group had unused tax losses of approximately HK$105,217,000 (2009: HK$66,538,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$2,188,000 (2009: HK$8,667,000) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of approximately HK$103,029,000 (2009: HK$57,871,000) due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

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

	2010 ***HK$'000***	2009 *HK$'000*
Deferred tax (assets) liabilities	**(12)**	3,704
Deferred tax assets associated with assets classified as held for sale *(Note 34)*	**–**	(406)
	(12)	3,298

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42. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

During the year ended 31 December 2010, 30,000,000 share options that were granted to directors of the Company on 22 October 2007 had not been exercised up to the end of the exercise period and had been lapsed on 22 October 2010. The share options reserve of approximately HK$7,010,000 had been transferred to accumulated losses.

On 27 May 2010, the Company granted 181,000,000 share options to the directors of the Company. The share options were granted at an exercise price of HK$0.64 with exercise period of 5 years immediately starting from the date of grant.

On 28 April 2010, 13 May 2010 and 22 July 2010, respectively, share options of 3,000,000, 6,500,000 and 6,500,000, totaling to 16,000,000 share options were exercised by certain directors of the Company and employee of the Group at a subscription price of HK$0.075 per share.

On 29 October 2010 and 4 November 2010, respectively, share options of 1,500,000 and 1,500,000, totaling to 3,000,000 share options were exercised by certain directors of the Company at a subscription price of HK$0.64 per share.

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42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options granted during the year ended 31 December 2010:

				Number of share options				
Name of participant	Date of grant	Exercisable period	Exercisable price HK$	Outstanding at 1/1/2010	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2010
Directors								
Chan Shui Sheung, Ivy	22.10.2007	22.10.2007 to 22.10.2010	1.198	15,000,000	–	–	(15,000,000)	–
	27.5.2010	27.5.2010 to 26.5.2015	0.64	–	1,500,000	(1,500,000)	–	–
Yeung Sau Han, Agnes	22.10.2007	22.10.2007 to 22.10.2010	1.198	15,000,000	–	–	(15,000,000)	–
	27.5.2010	27.5.2010 to 26.5.2015	0.64	–	175,000,000	–	–	175,000,000
Cheng Kwok Woo	31.10.2008	31.10.2008 to 31.10.2011	0.075	6,500,000	–	(6,500,000)	–	–
	27.5.2010	27.5.2010 to 26.5.2015	0.64	–	1,500,000	–	–	1,500,000
Cheng Kwong Cheong	31.10.2008	31.10.2008 to 31.10.2011	0.075	6,500,000	–	(6,500,000)	–	–
	27.5.2010	27.5.2010 to 26.5.2015	0.64	–	1,500,000	–	–	1,500,000
Tin Ka Pak	27.5.2010	27.5.2010 to 26.5.2015	0.64	–	1,500,000	(1,500,000)	–	–
Sub-total				43,000,000	181,000,000	(16,000,000)	(30,000,000)	178,000,000
Employees	31.10.2008	31.10.2008 to 31.10.2011	0.075	3,000,000	–	(3,000,000)	–	–
				46,000,000	181,000,000	(19,000,000)	(30,000,000)	178,000,000
Weighted average exercise price				0.81	0.64	0.16	1.198	0.64

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42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK$0.74 (2009: HK$0.4).

The number of share options exercisable at 31 December 2010 was 178,000,000 shares (2009: 46,000,000 shares).

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

				Number of share options				
Name of participant	Date of grant	Exercisable period	Exercisable price HK$	Outstanding at 1/1/2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2009
Directors								
Chan Shui Sheung, Ivy	22.10.2007	22.10.2007 to 22.10.2010	1.198	15,000,000	–	–	–	15,000,000
Yeung Sau Han, Agnes	22.10.2007	22.10.2007 to 22.10.2010	1.198	15,000,000	–	–	–	15,000,000
Cheng Kwok Woo	31.10.2008	31.10.2008 to 31.10.2011	0.075	6,500,000	–	–	–	6,500,000
Cheng Kwong Cheong	31.10.2008	31.10.2008 to 31.10.2011	0.075	6,500,000	–	–	–	6,500,000
Sub-total				43,000,000	–	–	–	43,000,000
Employees	31.10.2008	31.10.2008 to 31.10.2011	0.075	5,500,000	–	(2,500,000)	–	3,000,000
				48,500,000	–	(2,500,000)	–	46,000,000
Weighted average exercise price				0.77	–	0.075	–	0.81

The fair value of the options granted on 27 May 2010 determined at the date of grant using the Black-Scholes-Merton option pricing model was HK$0.3591. The total fair value of the options granted was approximately HK$65,000,000 and was recognised during the year ended 31 December 2010.

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42. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

	27 May 2010
Closing price at the date of grant	HK$0.64
Exercise price	HK$0.64
Expected volatility	109.57%
Expected life	2.49 years
Risk-free rate	0.88%
Expected dividend yield	–

Expected volatility was determined based on 2.49 years annualised daily historical price volatilities of comparable companies sourced from the Bloomberg. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

43. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2010

On 13 August 2010, the Group acquired 100% of the issued share capital of Able Winner International Limited ("Able Winner") from GNL10 Limited, an independent third party, at a consideration of HK$1. The fair value of net assets of Able Winner at the acquisition date was HK$1. No goodwill or discount on acquisition resulted from the acquisition.

The acquisition had no contribution of revenue, profit or cash flow to the Group from the date of completion to 31 December 2010. If the acquisition was completed on 1 January 2010, the acquisition would have no contribution of revenue, results or cash flows to the Group.

For the year ended 31 December 2009

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

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

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

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44. DISPOSAL OF SUBSIDIARIES

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As detailed in Note 34, on 25 November 2009, the Group had entered into an Agreement to dispose of its 100% equity interest in Magic Horizon and its loans to the Purchaser at an aggregate consideration for the Sale Shares and Sale Loans calculated in accordance with the supplementary agreement signed on 28 April 2010, as detailed in the Company's announcement dated 30 April 2010. Pursuant to the Agreement, the consideration receivable shall be paid upon completion of the disposal, and the amount had been fully settled subsequent to the end of the reporting period.

The net liabilities of the subsidiaries disposed of at the date of disposal were as follows:

	HK$'000
Consideration	
Consideration received in cash and cash equivalents	6,600
Consideration receivable	57,531
Total consideration	64,131
Analysis of assets and liabilities over which control was lost	
Non-current assets	
Property, plant and equipment	51,000
Prepaid lease payments	11,243
Deferred taxation	406
Current assets	
Inventories	1,119
Debtors, bills receivables, deposits and prepayments	8,989
Bank balances and cash	1,615
Current liabilities	
Creditors and accruals	(101,729)
Bank and other loans	(5,568)
Net liabilities disposed of	(32,925)
Gain on disposal of subsidiaries	
Consideration received and receivable	64,131
Net liabilities disposed of	32,925
Sale Loans	(98,515)
Cumulative exchange differences in respect of the net liabilities of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiaries	9,007
Gain on disposal	7,548

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

44. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2010 (Continued)

	HK$'000
Net cash inflow on disposal of subsidiaries	
Consideration received in cash and cash equivalents	6,600
Less: cash and cash equivalent balances disposed of	(1,615)
	4,985

For the year ended 31 December 2009

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

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

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

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For the year ended 31 December 2010

44. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2009 (Continued)

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

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

The subsidiaries disposed of during the year ended 31 December 2009 did not contribute to the Group's revenue, contributed approximately HK$43,405,000 to the Group's profit, contributed approximately HK$37,125,000 to the Group's net operating cash flows and had no significant impact on the Group's investing and operating cash flows.

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For the year ended 31 December 2010

45. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately HK$39,000 (2009: HK$337,000). The rental yield for the year ended 31 December 2010 is 1% (2009: 8%).

At 31 December 2010, the Group had contracted with tenants for future minimum lease payments of HK$78,000 (2009: Nil) for within the next twelve months.

The Group as lessee

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

	2010	2009
	HK$'000	*HK$'000*
Within one year	**1,678**	1,788
In the second to fifth year inclusive	**2,378**	–
	4,056	1,788

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

46. CAPITAL COMMITMENTS

	2010	2009
	HK$'000	*HK$'000*
Contracted for but not provided		
Acquisition of an associate	**–**	120,000
Acquisition of a subsidiary *(Note)*	**401,074**	–
	401,074	120,000

Note: On 15 October 2010, the Group entered into a conditional sale and purchase agreement for the acquisition of the entire issued share capital of Upmove International Limited ("Upmove"). Upon the completion of the acquisition of Upmove, the Group will indirectly own as to 50% equity interest in Rizhao Lanshan Wansheng Harbour Co., Ltd.* (日照嵐山萬盛港業有限責任公司). The acquisition was approved by the shareholders of the Company at an extraordinary general meeting held on 17 February 2011. Details of the proposed acquisition are set out in the Company's announcements dated 28 September 2010 and 8 November 2010 and the circular dated 27 January 2011.

* *For identification only*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

47. EMPLOYEE RETIREMENT BENEFITS

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

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

During the year, the Group made retirement benefits scheme contributions of approximately HK$481,000 (2009: HK$692,000).

48. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2010, the Group sold polishing materials to Shanghai PME-XINHUA, a jointly controlled entity of the Group, amounting to HK$2,968,000 (2009: HK$1,613,000).

During the year ended 31 December 2010, the Group had interest income receivable of approximately HK$1,348,000 (2009: HK$3,061,000) on the advance (Note 29) and return of approximately HK$1,500,000 (2009: HK$18,898,000) on funds and charge over assets (Note 23) granted to Express Advantage respectively.

As set out in Notes 34 and 44, the Group and the Purchaser had entered into the Agreement, pursuant to which the Vendors agreed to sell and the Purchaser agreed to purchase the Sale Shares and the Sales Loans. The Purchaser is a company beneficially owned as to one-third by each of Mr. Cheng Kwok Woo, Mr. Cheng Kwong Cheong (both are executive directors and substantial shareholders) and Ms. Cheng Wai Ying (a then substantial shareholder). On 29 December 2010, approval of the disposal was obtained from the independent shareholders in an extraordinary general meeting and the disposal was completed on 30 December 2010.

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

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For the year ended 31 December 2010

49. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2010, the Group entered into a finance lease arrangement in respect of a motor vehicle with a capital value at the inception of the lease of HK$1,678,000.

During the year ended 31 December 2010, the Group had received interest income from loan receivables of approximately HK$5,848,000 and of which approximately HK$4,132,000 was included in other receivables in the consolidated statement of financial position.

As set out in Note 23, during the year ended 31 December 2010, the Group had received a return on funds and charge over assets granted to an associate amounting to approximately HK$1,500,000 (2009: HK$18,898,000) which had been settled through a current account with the associate which had been included in the amounts due from associates (Note 29) in the consolidated statement of financial position.

As set out in Note 26, the consideration for the acquisition of the 49% equity interest in Giant Billion are partially settled by the deposit of HK$80,000,000 paid by the Company in previous years, the Company's issuance of convertible bonds with principal amount of HK$60,000,000 and the issuance of promissory note with principal amount of HK$60,000,000.

As set out in Note 48, the Group has interest receivable of approximately HK$1,348,000 (2009: HK$3,061,000) from an associate and was included in the amount due from an associate (Note 29) as at 31 December 2010.

As set out in Note 40, during the year ended 31 December 2009, the Group had settled the HK$34,049,000 consideration payable in relation to the acquisition of China Bio-Med by way of HK$12,000,000 cash settlement and the remaining balance of approximately HK$22,049,000 by way of issuing 44,097,600 shares in the Company valued at HK$0.50 per share with a closing price of HK$0.43 per share at the shares issue date.

50. EVENTS AFTER THE REPORTING PERIOD

(1) On 8 February 2011, 3 March 2011 and 14 March 2011, the holders of CB2 converted an aggregate of HK$10,800,000 convertible bonds into a total of 360,000,000 ordinary shares of HK$0.01 each in the Company. These shares rank pari passu with the existing shares in all respects.

(2) On 28 February 2011, the Group entered into a third supplemental agreement with the vendor for the proposed acquisition of Upmove as mentioned in Note 46 to extend the long stop date from 28 February 2011 to 30 April 2011. Details are set out in the Company's announcement dated 28 February 2011.

Notes to the Consolidated Financial Statements

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51. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2010 and 2009 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital *(note a)*	Proportion of nominal value of issued capital/ registered capital held by the Company 2010	2009	Principal activities
Indirectly held by the Company					
Fook Cheong Ho International Limited	Hong Kong	5% non-voting deferred shares HK$300,000 *(note b)* Ordinary shares HK$1,000,000	**100%**	100%	Trading of polishing materials and equipment
PME International Company Limited	Hong Kong	5% non-voting deferred shares HK$19,200,000 *(note c)* Ordinary shares HK$100,000	**100%**	100%	Investment holding and trading of polishing materials and equipment
Sunbright Asia Limited	BVI	Ordinary shares US$1,000	**100%**	100%	Investment holding
One Express Group Limited	BVI	Ordinary shares US$1,000	**100%**	100%	Investment holding
Treasure Star Trading Limited	Hong Kong	Ordinary share HK$1	**100%**	100%	Investment
Top Good Holdings Limited	Hong Kong	Ordinary share HK$1	**100%**	100%	Investment
Betterment Enterprises Limited	BVI	Ordinary shares US$10,000	**99.49%**	99.49%	Investment holding
Able Winner International Limited	Hong Kong	Ordinary share HK$1	**100%**	–	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(a) All principal subsidiaries operate principally in Hong Kong.

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

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

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

None of the subsidiaries had any debt securities subsisting at 31 December 2010 and 2009 or at any time during the year.

Financial Summary

RESULTS

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	235,226	258,884	211,256	176,709	**156,930**
Profit/(loss) before taxation	6,667	(29,296)	(268,920)	189,036	**(89,123)**
Taxation	(1,165)	556	528	(29,985)	**(4,387)**
Profit/(loss) for the year attributable to the owners of the Company	5,502	(28,740)	(268,392)	159,051	**(93,510)**

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2007	2008	2009	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	275,319	916,931	721,663	892,277	**1,230,273**
Total liabilities	(34,485)	(41,069)	(90,432)	(68,310)	**(349,790)**
	240,834	875,862	631,231	823,967	**880,483**
Equity attributable to owners of the Company	240,579	875,551	630,955	822,999	**879,370**
Non-controlling interests	255	311	276	968	**1,113**
	240,834	875,862	631,231	823,967	**880,483**