PME GROUP LIMITED

必美宜集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 00379

ANNUAL REPORT 2011

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cheng Kwok Woo *(Chairman)*
Ms. Yeung Sau Han Agnes *(Chief Executive Officer)*
Ms. Chan Shui Sheung Ivy
Mr. Lai Ka Fai

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Leung Yuen Wing
Mr. Lam Kwok Hing Wilfred
Mr. Goh Choo Hwee

JOINT COMPANY SECRETARIES

Mr. Li Chak Hung
Mr. Lai Ka Fai

AUTHORISED REPRESENTATIVES

Mr. Cheng Kwok Woo
Ms. Yeung Sau Han Agnes

AUDIT COMMITTEE

Mr. Leung Yuen Wing *(Chairman)*
Mr. Lam Kwok Hing Wilfred
Mr. Goh Choo Hwee

REMUNERATION COMMITTEE

Mr. Leung Yuen Wing *(Chairman)*
Mr. Cheng Kwok Woo
Mr. Lam Kwok Hing Wilfred
Mr. Goh Choo Hwee

NOMINATION COMMITTEE

Mr. Cheng Kwok Woo *(Chairman)*
Mr. Leung Yuen Wing
Mr. Lam Kwok Hing Wilfred
Mr. Goh Choo Hwee

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 2011 annual report.

RESULTS FOR THE YEAR

For the year 2011, the Group recorded turnover of approximately HK$266.9 million and net loss attributable to shareholders amounted to approximately HK$432.5 million. The Directors do not recommend payment of final dividend for the year ended 31 December 2011.

REVIEW OF THE YEAR

The Group's turnover for the year ended 31 December 2011 increased by 29.9% to HK$266.9 million as compared with last year. The increase in turnover was mainly due to increase in revenue from terminal and logistics services during the year since the business of terminal and logistics services was acquired by the Group during the year. During the year 2011, segmental revenue of polishing materials and equipment decreased by 28.4% as compared with last year and there was no segmental revenue of investment.

Loss for the year ended 31 December 2011 attributable to the shareholders of the Company was approximately HK$432.5 million (2010: HK$93.7 million). The Group's loss increased for the year ended 31 December 2011 mainly due to increase in impairment losses on available-for-sale investments and interests in associates, decrease in fair value of convertible bonds designated as financial assets at fair value through profit or loss, increase in impairment loss on amounts due from associates, decrease in fair value of held for trading investments and increase in loss of share of result of associates.

Segmental loss of the polishing materials and equipments division increased from approximately HK$4.5 million in 2010 to HK$14.9 million in 2011, which was mainly due to decrease in sales of polishing materials and equipments. The gross profit margin of polishing materials and equipments division remained stable.

The investment division recorded a segmental loss of approximately HK$421.6 million, as compared with the segmental profit of approximately HK$6.0 million in 2010, which was mainly due to impairment losses on available-for-sale investments and interests in associates, decrease in fair value of convertible bonds designated as financial assets at fair value through profit or loss, increase in impairment loss on amounts due from associates, decrease in fair value of held for trading investments and increase in loss of share of result of associates.

On 28 April 2011, the Group completed the acquisition of entire issued capital of Upmove International Limited ("Upmove") and indirectly own 50% of the equity interests in Rizhao Lanshan Wansheng Harbour Company Limited ("Rizhao Lanshan"). Rizhao Lanshan is a sino-foreign joint venture company established in Mainland China and engaged in provision of terminal and logistics 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, Shandong province of the PRC. The terminal and logistics division recorded a segmental profit of approximately HK$60.4 million for the year ended 31 December 2011.

On 30 December 2011, Upmove entered into the agreement with Rizhao Port Company Limited ("Rizhao Port"), pursuant to which each of Upmove and Rizhao Port has agreed to make the capital increase in an amount of RMB80 million each to Rizhao Lanshan to increase registered capital of Rizhao Lanshan from RMB140 million to RMB300 million. The amounts of the capital increase will be used for the construction of two new 70,000-tonne berths of Rizhao Lanshan. The two new berths are expected to be ready for operation before the end of the year 2012. The capital increase of Rizhao Lanshan was completed in January 2012.

Chairman's Statement

OUTLOOK

The sluggish rebound of the US economy and the endless tribulations and ongoing struggles to provide concrete measures to solve the Eurozone sovereign debt crisis have already had a negative impact on emerging markets. Given that these fundamental problems will continue to prevail and adversely affect the global economy and financial markets, it is expected that the economic prospects in 2012 remains gloomy. The Group would dispose of certain investment portfolio, keep on evaluating and restructuring its investment portfolio, strategies, and business scopes in order to improve its financial performance.

It is expected that there is still full of uncertainty in terms of the economic situation of the United States and Europe. The export of the PRC will be adversely affected due to decrease in demand for consumer goods. The management predicts that demand for the Group's polishing products will continue to decrease. The operational costs have been increasing, but it is difficult to transfer all the cost increases to the customers as the market competition is very keen. The Directors remain cautious of the outlook of the polishing product business. The Group will continue to enforce cost-saving measures, concentrate on selling products with high profit margin, expand its distribution network and develop new products in order to improve the profitability of this business segment.

The newly acquired terminal and port operation performs satisfactorily. It provides stable revenue and profit to the Group. Benefiting from the government's economic policies and the economic development in south Shandong Province, the demand for terminal and logistics services in that area is expected to increase continuously. However, as affected by global economic downturn and the PRC government's policies on inflation control, the growth pace of the import and export will be slowed down. The newly developed Dongjiakou port and Gangyu port in Qingdao Harbour will also increase the competition of terminal and logistics operation in the neighborhood area.

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 2012

Management Discussion and Analysis

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group's turnover for the year ended 31 December 2011 increased by 29.9% to HK$266.9 million as compared with last year. The increase in turnover was mainly due to increase in revenue from terminal and logistics services during the year since the business of terminal and logistics services was acquired by the Group during the year. During the year 2011, segmental revenue of polishing materials and equipment decreased by 28.4% as compared with last year and there was no segmental revenue of investment.

Loss for the year ended 31 December 2011 attributable to the shareholders of the Company was approximately HK$432.5 million (2010: HK$93.7 million). The Group's loss increased for the year ended 31 December 2011 mainly due to increase in impairment losses on available-for-sale investments and interests in associates, decrease in fair value of convertible bonds designated as financial assets at fair value through profit or loss, increase in impairment loss on amounts due from associates, decrease in fair value of held for trading investments and increase in loss of share of result of associates.

Segmental loss of the polishing materials and equipments division increased from approximately HK$4.5 million in 2010 to HK$14.9 million in 2011, which was mainly due to decrease in sales of polishing materials and equipments. The gross profit margin of polishing materials and equipments division remained stable.

The investment division recorded a segmental loss of approximately HK$421.6 million, as compared with the segmental profit of approximately HK$6.0 million in 2010, which was mainly due to impairment losses on available-for-sale investments and interests in associates, decrease in fair value of convertible bonds designated as financial assets at fair value through profit or loss, increase in impairment loss on amounts due from associates, decrease in fair value of held for trading investments and increase in loss of share of result of associates.

On 28 April 2011, the Group completed the acquisition of entire issued capital of Upmove and indirectly own 50% of the equity interests in Rizhao Lanshan. Rizhao Lanshan is a sino-foreign joint venture company established in Mainland China and engaged in provision of terminal and logistics 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, Shandong province of the PRC. The terminal and logistics division recorded a segmental profit of approximately HK$60.4 million for the year ended 31 December 2011.

On 30 December 2011, Upmove entered into the agreement with Rizhao Port, pursuant to which each of Upmove and Rizhao Port has agreed to make the capital increase in an amount of RMB80 million each to Rizhao Lanshan to increase registered capital of Rizhao Lanshan from RMB140 million to RMB300 million. The amounts of the capital increase will be used for the construction of two new 70,000-tonne berths of Rizhao Lanshan. The two new berths are expected to be ready for operation before the end of the year 2012. The capital increase of Rizhao Lanshan was completed in January 2012.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2011, the Group had interest-bearing bank and other loans of approximately HK$102.5 million (31 December 2010: HK$9.4 million), which were of maturity within two years. The Board expects that all 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 2011, current assets of the Group amounted to approximately HK$427.2 million (31 December 2010: HK$755.1 million). The Group's current ratio was approximately 1.42 as at 31 December 2011 as compared with 10.70 as at 31 December 2010. At 31 December 2011, the Group had total assets of approximately HK$1,261.0 million (31 December 2010: HK$1,232.5 million) and total liabilities of approximately HK$741.7 million (31 December 2010: HK$352.0 million), representing a gearing ratio (measured as total liabilities to total assets) of 58.8% as at 31 December 2011 as compared with 28.6% as at 31 December 2010.

CHARGE OF ASSETS

At 31 December 2011, the Group's pledged bank deposits with carrying value of HK$63.0 million, property, plant and equipment with carrying value of HK$26.8 million and the listed securities held under the margin accounts, with a total market value of approximately HK$9.3 million have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

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.

SIGNIFICANT INVESTMENTS

At 31 December 2011, 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$41.0 million, HK$155.6 million, HK$45.2 million and HK$10.0 million respectively. During the year, the Group recorded impairment loss on available-for-sale investments amounting to approximately HK$71.8 million, impairment loss on interests in associates amounting to approximately HK$132.3 million, loss on deemed partial disposal of an associate amounting to approximately HK$20.8 million and loss on disposals of held for trading investments amounting to approximately HK$0.5 million.

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 disposal of held for trading investments amounting to approximately HK$9.0 million.

Management Discussion and Analysis

FOREIGN EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2011 and 2010.

CAPITAL COMMITMENTS

At 31 December 2010 and 2011, the Group had capital commitments as follows:

	2011	2010
	HK$'000	*HK$'000*
Contracted for but not provided:		
Acquisition of a subsidiary	**–**	401,074
Capital injection in a jointly controlled entity	**100,000**	–
Acquisition of property, plant and equipment	**213,292**	–
	313,292	401,074

OUTLOOK

The sluggish rebound of the US economy and the endless tribulations and ongoing struggles to provide concrete measures to solve the Eurozone sovereign debt crisis have already had a negative impact on emerging markets. Given that these fundamental problems will continue to prevail and adversely affect the global economy and financial markets, it is expected that the economic prospects in 2012 remains gloomy. The Group would dispose of certain investment portfolio, keep on evaluating and restructuring its investment portfolio, strategies, and business scopes in order to improve its financial performance.

It is expected that there is still full of uncertainty in terms of the economic situation of the United States and Europe. The export of the PRC will be adversely affected due to decrease in demand for consumer goods. The management predicts that demand for the Group's polishing products will continue to decrease. The operational costs have been increasing, but it is difficult to transfer all the cost increases to the customers as the market competition is very keen. The Directors remain cautious of the outlook of the polishing product business. The Group will continue to enforce cost-saving measures, concentrate on selling products with high profit margin, expand its distribution network and develop new products in order to improve the profitability of this business segment.

Management Discussion and Analysis

The newly acquired terminal and port operation performs satisfactorily. It provides stable revenue and profit to the Group. Benefiting from the government's economic policies and the economic development in south Shandong Province, the demand for terminal and logistics services in that area is expected to increase continuously. However, as affected by global economic downturn and the PRC government's policies on inflation control, the growth pace of the import and export will be slowed down. The newly developed Dongjiakou port and Gangyu port in Qingdao Harbour will also increase the competition of terminal and logistics operation in the neighborhood area.

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.

MATERIAL ACQUISITIONS

In October 2010, the Group entered into a conditional sale and purchase agreement to acquire the entire issued share capital of Upmove at a consideration of approximately RMB343 million (approximately HK$413 million). Upon the completion of the acquisition of Upmove, the Group indirectly own 50% of the equity interests in Rizhao Lanshan. Rizhao Lanshan is a sino-foreign joint venture company established in the PRC and engaged in provision of terminal and logistics 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, Shandong Province of the PRC. Details of the acquisition are disclosed in the Company's circular dated 27 January 2011. The acquisition was completed on 28 April 2011.

EMPLOYEES AND REMUNERATION

At 31 December 2011, the Group had approximately 160 (2010: 55) 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 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 2011.

THE BOARD OF DIRECTORS

The Board currently comprises four 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 for the year ended 31 December 2011 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	8/9		1/1	1/1
Cheng Kwong Cheong (resigned on 30 June 2011)	3/6			
Yeung Sau Han Agnes	8/9			
Chan Shui Sheung Ivy	9/9			
Tin Ka Pak (resigned on 30 June 2011)	5/6			
Independent Non-Executive Directors				
Chow Fu Kit Edward (resigned on 31 January 2012)	7/9	2/2	1/1	1/1
Leung Yuen Wing	6/9	2/2	1/1	1/1
Lam Kwok Hing Wilfred (appointed on 14 April 2011)	4/5	1/1		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

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

Following resignation of an independent non-executive director on 14 January 2011, the Company had only two independent non-executive directors, the number of which fell below the minimum number required under Rule 3.10(1) of the Listing Rules. On 14 April 2011, the Company appointed an independent non-executive director. The Company was in compliance with Rule 3.10(1) of the Listing Rules.

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. For the year ended 31 December 2011, the Remuneration Committee comprises the Board's Chairman, Mr. Cheng Kwok Woo, and three INEDs, namely Mr. Chow Fu Kit Edward (resigned on 31 January 2012), Mr. Leung Yuen Wing and Mr. Lam Kwok Hing Wilfred. 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. For the year ended 31 December 2011, the Nomination Committee comprises the Board's Chairman, Mr. Cheng Kwok Woo and two INEDs, namely Mr. Chow Fu Kit Edward (resigned on 31 January 2012) and Mr. Leung Yuen Wing. The Nomination Committee is chaired by Mr. Cheng Kwok Woo.

During the year, one Nomination Committee meeting was held to discuss 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

For the year ended 31 December 2011, the Audit Committee comprises three INEDs, namely Mr. Chow Fu Kit Edward (resigned on 31 January 2012), Mr. Leung Yuen Wing and Mr. Lam Kwok Hing Wilfred. The Audit Committee is chaired by Mr. Leung Yuen Wing.

Following resignation of an independent non-executive director on 14 January 2011, the Company had only two Audit Committee members, the number of which fell below the minimum number required under rule 3.21 of the Listing Rules. On 14 April 2011, the Company appointed an Audit Committee member. The Company was in compliance with Rule 3.21 of the Listing Rules.

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 2011.

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.

Corporate Governance Report

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibility for preparing the financial statements of the Group. As at 31 December 2011, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

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

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.

AUDITOR'S REMUNERATION

For the year ended 31 December 2011, 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$1,180,000 and HK$80,000 respectively.

The statement of the auditor of the Company regarding their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 23 and 24.

On behalf of the Board
Cheng Kwok Woo
Chairman

Hong Kong, 30 March 2012

Directors' and Senior Management's Profiles

DIRECTORS

Executive Directors

Mr. Cheng Kwok Woo, aged 55, 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.

Ms. Yeung Sau Han Agnes, aged 46, 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 (stock code: 8089), which is listed on the Stock Exchange.

Ms. Chan Shui Sheung Ivy, aged 47, 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 (stock code: 8089), which is listed on the Stock Exchange.

Mr. Lai Ka Fai, aged 43, was appointed as an executive director in January 2012 and is responsible for the port operation business of the Group. He holds a Bachelor degree in Laws from The Manchester Metropolitan University in the United Kingdom, a Postgraduate Certificate in Laws from The University of Hong Kong and a Master degree of Business Administration from the University of Leicester in the United Kingdom. He is a solicitor of the High Court of the Hong Kong Special Administrative Region and has over 10 years of experience in the legal field. He is also the joint company secretary of the Company.

Independent Non-executive Directors

Mr. Leung Yuen Wing, aged 45, 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 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

Mr. Lam Kwok Hing Wilfred, aged 53, was appointed as an independent non-executive director in April 2011. He is the Group Vice President of 3D-GOLD Jewellery (HK) Limited; executive director and group vice president of Hong Kong Resources Holdings Company Limited (stock code: 2882), a company listed on the Main Board of the Stock Exchange; the non-executive vice-chairman and non-executive director of National Arts Holdings Limited (stock code: 8228), a company listed on the Growth Enterprise Market of the Stock Exchange; non-executive director of The Hong Kong Building and Loan Agency Limited (stock code: 145), a company listed on the Main Board of the Stock Exchange; and independent non-executive director of Value Convergence Holdings Limited (stock code: 821), a company listed on the Main Board of the Stock Exchange. He is a Justice of the Peace of the Hong Kong Special Administrative Region and was awarded the Queen's Badge of Honour in January 1997. He holds a bachelor degree of Law with honours from The University of Hong Kong. He is a practising solicitor in Hong Kong and is a consultant lawyer of WT Law Offices. He also holds a professional qualification of Estate Agent's (Individual) Licence in Hong Kong.

Being an active member in social and charity activities, Mr. Lam is a Support Force Commander of the Civil Aid Service, Officio Member of New Territories Heung Yee Kuk, Chairman of the Friends of the Community Chest (Kwai Tsing), Honorary Advisor and Former Vice-President of (Kwai Tsing) Junior Police Call, member of and Former Chairman of the Kwai Tsing District Fight Crime Committee, Director and Former Chairman of the Kwai Tsing District Community Development Fund in Hong Kong. He is also an executive member of the liaison association of the Chinese People's Political Consultative Conference, Guangdong Province.

Mr. Goh Choo Hwee, aged 41, was appointed as an independent non-executive director in January 2012. He has over 10 years of experience in PRC-related, corporate and securities practice. He is currently a partner at Tsun & partners, Solicitors, a corporate and commercial law firm in Hong Kong. He graduated from The University of Hong Kong with Postgraduate Certificate in Laws in 1995. He has become a member of The Law Society of Hong Kong and has been a practicing solicitor in Hong Kong since 1997.

SENIOR MANAGEMENT

Mr. Cheng Kwong Cheong, aged 51, is the managing director of the Group's polishing materials division. He joined the Group in 1990 and is responsible for the operations and development of the Group's polishing materials 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. Cheng Wai Ying, aged 53, 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.

Directors' and Senior Management's Profiles

Mr. Chan Yee Kam, aged 51, 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 39, 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. Lee Kam Wing, aged 46, 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 36, is the financial control manager of the Group. She joined the Group in 2003 and is responsible for financial analysis 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 hereby present their annual report and the audited financial statements of the Group for the year ended 31 December 2011.

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 52 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31 December 2011 is set out in note 8 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 25 and 26 of this annual report.

The Board does not recommend payment of final dividend for the year ended 31 December 2011.

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 118 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 16 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year together with the reasons therefore and up to the date of this report are set out in note 41 to the financial statements.

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 2011, in the opinion of the directors, the Company's share premium and reserves available for distribution to shareholders amounted to HK$961,998,000.

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 43 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 and purchases attributable to the Group's five largest customers and suppliers taken together accounted for less than 30 per cent of the Group's total turnover and total purchases respectively for the year.

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

RELATED PARTY TRANSACTIONS

Related party transactions during the year are disclosed in note 49 to the financial statements.

Report of the Directors

CONTINUING CONNECTED TRANSACTION

Pursuant to Chapter 14A of the Listing Rules, the following transaction is the continuing connected transaction as defined in the Listing Rules and is required to be disclosed in the annual report of the Company.

On 25 November 2009, the Group entered into a master processing agreement with Billionlink Holdings Limited ("Billionlink"), pursuant which the Group agreed to supply raw materials each year to Billionlink and/or its subsidiaries and nominees for further processing for a term of three years commenced from 30 December 2010. The entire issued share capital of Billionlink is beneficially owned as to one-third by each of Mr. Cheng Kwok Woo (an executive director of the Company), Mr. Cheng Kwong Cheong (a former executive director of the Company) and Ms. Cheng Wai Ying.

The annual aggregate amount of charges for further processing the raw materials for each of the three years under the master processing agreement shall not exceed the annual capacity of HK$14,000,000. For the year ended 31 December 2011, PME International Company Limited, a wholly-owned subsidiary of the Company, paid processing charges of approximately HK$9,454,000 to PME International Investment (South China) Limited, a wholly-owned subsidiary of Billionlink.

DIRECTORS

The directors of the Company during the year ended 31 December 2011 and up to the date of this report were:

Executive directors

Mr. Cheng Kwok Woo *(Chairman)*	
Ms. Yeung San Han Agnes *(Chief Executive Officer)*	
Ms. Chan Shui Sheung Ivy	
Mr. Lai Ka Fai	(appointed on 18 January 2012)
Mr. Cheng Kwong Cheong *(Vice-Chairman)*	(resigned on 30 June 2011)
Mr. Tin Ka Pak	(resigned on 30 June 2011)

Independent non-executive directors

Mr. Leung Yuen Wing	
Mr. Lam Kwok Hing Wilfred	(appointed on 14 April 2011)
Mr. Goh Choo Hwee	(appointed on 18 January 2012)
Mr. Soong Kok Meng	(resigned on 14 January 2011)
Mr. Chow Fu Kit Edward	(resigned on 31 January 2012)

In accordance with Article 87(1) of the Company's Articles of Association, Mr. Cheng Kwok Woo and Ms. Chan Shui Sheung Ivy shall retire from offices by rotation in the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

In accordance with Article 86(3) of the Company's Articles of Association, Mr. Lai Ka Fai and Mr. Goh Choo Hwee shall hold office only until the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

The biographic details of the directors are set out on pages 13 and 14 of this annual report.

DIRECTORS' SERVICES CONTRACTS

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

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

At 31 December 2011, 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	–	62,400,000	1.23%
Ms. Chan Shui Sheung Ivy	550,000	–	550,000	0.01%
Ms. Yeung Sau Han Agnes	202,250,000	–	202,250,000	3.98%

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 2011 are as follows:

Name of grantee	Exercise price	Exercisable period	As at 1.1.2011	Granted during the year	Exercised/ Lapsed during the year	As at 31.12.2011
	HK$					
Mr. Cheng Kwok Woo	0.64	27.5.2010 - 26.5.2015	1,500,000	–	–	1,500,000
Ms. Yeung Sau Han Agnes	0.64	27.5.2010 - 26.5.2015	175,000,000	–	–	175,000,000
Mr. Cheng Kwong Cheong (resigned on 30 June 2011)	0.64	27.5.2010 - 26.5.2015	1,500,000	–	–	1,500,000
			178,000,000	–	–	178,000,000

Save as disclosed above, at no time during the year ended 31 December 2011 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, 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**
Crown Sunny Limited	*1*	300,000,000	L	5.90%
Mr. Wu Jia Neng	*2*	300,000,000	L	5.90%
Worldkin Development Limited	*3*	2,540,000,000	L	49.96%
Mr. Wong Lik Ping	*4*	2,540,000,000	L	49.96%
Shangxi Coal Transportation and Sales Group (HK) Co., Limited (“Shanxi Coal HK”)	*5*	3,320,000,000	L	65.30%
Shanxi Coal Transportation and Sales Group Co., Limited (“Shanxi Coal”)	*6*	3,320,000,000	L	65.30%
Mr. Ng Leung Ho		520,000,000	L	10.23%
CGI (HK) Limited		319,438,000	L	6.28%
CGI (Offshore) Limited	*7*	319,438,000	L	6.28%
Chinese Global Investors Group Limited	*8*	319,438,000	L	6.28%
Mr. Kong Xianyong		299,890,000	L	5.90%

Notes:

1. 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.

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

3. The interests represent the convertible bonds issued by the Company at a principal amount of HK$76,200,000 at a conversion price of HK$0.03 per conversion share.

4. 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.

5. The interests represent the convertible bonds issued by the Company at a principal amount of HK$80,400,000 at a conversion price of HK$0.03 per conversion share and 640,000,000 shares of the Company.

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

7. CGI (Offshore) Limited holds entire equity interests of CGI (HK) Limited and is accordingly deemed to have interests in the shares that CGI (HK) Limited has interests in.

8. Chinese Global Investors Group Limited holds entire equity interests of CGI (Offshore) Limited, and is the ultimate holding company of CGI (HK) Limited. As such, it is deemed to have interests in the shares that CGI (HK) Limited has interests in.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2011.

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.

PUBLIC FLOAT

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

AUDITOR

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

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

Hong Kong, 30 March 2012

Independent Auditor's Report

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 117, which comprise the consolidated statement of financial position as at 31 December 2011, 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, in accordance with our agreed terms of engagement 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 2011 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 2012

Consolidated Income Statement

For the year ended 31 December 2011

	NOTES	2011 HK$'000	2010 HK$'000 (Restated)
Turnover	7	**266,890**	205,508
Revenue		**265,683**	174,079
Cost of sales		**(183,137)**	(148,922)
Gross profit		**82,546**	25,157
Other income, gain and loss	9	**34,631**	8,232
Selling and distribution expenses		**(6,259)**	(9,590)
Administrative expenses		**(63,578)**	(128,950)
Increase in fair value of investment property	17	**500**	600
Gain on disposal of subsidiaries	45	**–**	7,548
(Loss) gain on disposal of convertible bonds designated as financial assets at fair value through profit or loss		**(623)**	500
Gain on disposal of available-for-sale investments		**–**	13,971
Loss on disposal of derivative financial assets		**(6,979)**	–
Impairment on available-for-sale investments		**(71,802)**	–
Impairment on interests in associates	22	**(132,302)**	–
Loss on deemed partial disposal of an associate	22	**(20,782)**	–
(Loss) gain on disposal of held for trading investments		**(474)**	8,975
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	27	**(53,732)**	4,401
Change in fair value of derivative financial assets	28	**–**	10,952
Impairment on amounts due from associates	29	**(33,000)**	–
Decrease in fair value of held for trading investments		**(74,795)**	(24,096)
Return on advances and charge over assets granted to an associate	23	**567**	1,500
Share of results of associates	22	**(35,290)**	18,353
Finance costs	10	**(39,105)**	(26,472)
Loss before taxation		**(420,477)**	(88,919)
Taxation	12	**(12,112)**	(4,591)
Loss for the year	13	**(432,589)**	(93,510)
Attributable to:			
Owners of the Company		**(432,451)**	(93,655)
Non-controlling interests		**(138)**	145
		(432,589)	(93,510)
Loss per share (Expressed in HK cents)			
Basic	15	**(11.14)**	(4.99)
Diluted	15	**(11.14)**	(4.99)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000*
Loss for the year	**(432,589)**	(93,510)
Other comprehensive income (expenses)		
Reclassification adjustments for the cumulative loss transferred to profit or loss:		
Upon impairment of available-for-sale investments	**71,802**	–
Exchange differences on translating foreign operations:		
Exchange differences arising during the year	**9,765**	633
Exchange differences realised upon the disposal of foreign operations during the year	**–**	(9,007)
Share of other comprehensive (expenses) income of associates	**(324)**	1,638
Transfer of investment revaluation reserve to profit or loss upon realisation of available-for-sale investments during the year	**–**	(27,633)
Net fair value (loss) gain on available-for-sale investments	**(69,917)**	2,656
Release of deferred tax arising on revaluation of available-for-sale investments upon disposal	**–**	3,758
Other comprehensive income (expenses) for the year (net of tax)	**11,326**	(27,955)
Total comprehensive expenses for the year	**(421,263)**	(121,465)
Total comprehensive (expenses) income attributable to:		
Owners of the Company	**(421,125)**	(121,610)
Non-controlling interests	**(138)**	145
	(421,263)	(121,465)

Consolidated Statement of Financial Position

As at 31 December 2011

	NOTES	**31 December 2011 HK$'000**	31 December 2010 HK$'000 (Restated)	1 January 2010 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	16	**461,521**	18,513	21,134
Investment property	17	**5,200**	4,700	4,100
Prepaid lease payments	18	**18,624**	–	–
Available-for-sale investments	19	**41,038**	110,171	137,101
Goodwill	20	**39,949**	–	–
Sea use rights	21	**111,452**	–	–
Interests in associates	22	**155,616**	343,666	135,449
Club debentures		**350**	350	350
Deferred tax assets	42	**–**	12	–
		833,750	477,412	298,134
Current assets				
Inventories	24	**25,509**	30,394	11,541
Trade and bills receivables, deposits and prepayments	25	**92,721**	126,070	164,525
Convertible bonds designated as financial assets at fair value through profit or loss	27	**45,179**	106,734	101,319
Derivative financial assets	28	**–**	10,952	–
Amounts due from associates	29	**19,791**	52,806	44,631
Loan receivables	30	**21,351**	72,980	52,700
Prepaid lease payments	18	**414**	–	–
Taxation recoverable		**–**	574	574
Held for trading investments	31	**10,010**	81,564	115,159
Deposits placed with financial institutions	32	**173**	927	3,203
Pledged bank deposits	33	**63,046**	6,200	–
Bank balances and cash	33	**149,024**	265,898	19,611
		427,218	755,099	513,263
Assets classified as held for sale	34	**–**	–	83,427
		427,218	755,099	596,690
Current liabilities				
Trade payables and accruals	35	**167,564**	23,536	14,444
Taxation payable		**41,599**	37,154	32,771
Obligation under a finance lease	37	**568**	543	–
Bank and other loans	38	**91,908**	9,357	11,515
		301,639	70,590	58,730
Liabilities directly associated with assets classified as held for sale	34	**–**	–	8,423
		301,639	70,590	67,153
Net current assets		**125,579**	684,509	529,537
Total assets less current liabilities		**959,329**	1,161,921	827,671

Consolidated Statement of Financial Position

As at 31 December 2011

	NOTES	**31 December 2011 HK$'000**	31 December 2010 HK$'000 (Restated)	1 January 2010 HK$'000 (Restated)
Capital and reserves				
Share capital	41	**50,842**	25,442	18,052
Reserves		**467,447**	853,928	804,947
Equity attributable to owners of the Company		**518,289**	879,370	822,999
Non-controlling interests		**975**	1,113	968
Total equity		**519,264**	880,483	823,967
Non-current liabilities				
Obligation under a finance lease	37	**392**	960	–
Bank and other loans	38	**10,633**	–	–
Port construction fee refund	36	**151,793**	–	–
Convertible bonds	39	**194,301**	229,101	–
Promissory note	40	**55,243**	51,377	–
Deferred tax liabilities	42	**27,703**	–	3,704
		440,065	281,438	3,704
		959,329	1,161,921	827,671

The consolidated financial statements on pages 25 to 117 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed on its behalf by:

Cheng Kwok Woo
Director

Yeung Sau Han Agnes
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	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$'000	Investment revaluation reserve HK$'000	Other reserves *(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 2010	18,052	879,173	(45,781)	8,310	7,384	19,151	1,452	–	(64,742)	822,999	968	823,967
(Loss) profit for the year	–	–	–	–	–	–	–	–	(93,655)	(93,655)	145	(93,510)
Other comprehensive expense for the year	–	–	–	(7,516)	–	(20,439)	–	–	–	(27,955)	–	(27,955)
Total comprehensive (expense) income for the year	–	–	–	(7,516)	–	(20,439)	–	–	(93,655)	(121,610)	145	(121,465)
Recognition of equity-settled share-based payment	–	–	–	–	65,000	–	–	–	–	65,000	–	65,000
Issue of shares upon exercise of share options *(Note 41)*	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 41)*	7,200	15,157	–	–	–	–	–	(6,498)	–	15,859	–	15,859
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
At 1 January 2011	**25,442**	**898,934**	**(45,781)**	**794**	**63,700**	**(1,288)**	**1,452**	**87,504**	**(151,387)**	**879,370**	**1,113**	**880,483**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(432,451)**	**(432,451)**	**(138)**	**(432,589)**
Other comprehensive income for the year	**–**	**–**	**–**	**9,765**	**–**	**1,561**	**–**	**–**	**–**	**11,326**	**–**	**11,326**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**9,765**	**–**	**1,561**	**–**	**–**	**(432,451)**	**(421,125)**	**(138)**	**(421,263)**
Issue of shares upon conversion of convertible bonds *(Note 41)*	**25,400**	**57,565**	**–**	**–**	**–**	**–**	**–**	**(22,921)**	**–**	**60,044**	**–**	**60,044**
At 31 December 2011	**50,842**	**956,499**	**(45,781)**	**10,559**	**63,700**	**273**	**1,452**	**64,583**	**(583,838)**	**518,289**	**975**	**519,264**

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 2011

	2011 HK$'000	2010 HK$'000 (Restated)
OPERATING ACTIVITIES		
Loss before taxation	**(420,477)**	(88,919)
Adjustments for:		
Amortisation of prepaid lease payments	**274**	–
Amortisation of sea use right	**1,310**	–
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	**53,732**	(4,401)
Change in fair value of derivative financial assets	**–**	(10,952)
Change in fair value of held for trading investments	**74,795**	24,096
Depreciation of property, plant and equipment	**14,116**	4,870
Finance costs	**39,105**	26,472
Gain on disposal of available-for-sale investments	**–**	(13,971)
Gain on disposal of subsidiaries	**–**	(7,548)
Change in fair value of investment property	**(500)**	(600)
Interest income	**(6,365)**	(7,528)
Impairment loss on trade receivables	**7,098**	3,418
Impairment on available-for-sale investments	**71,802**	–
Impairment loss on amount due from an associate	**33,000**	–
Loss on disposal of property, plant and equipment	**603**	4,281
Impairment loss on interests in associates	**132,302**	–
Loss on deemed partial disposal of an associate	**20,782**	–
Loss on disposal of derivative financial assets	**6,979**	–
Return on advances and charge over assets granted to an associate	**(567)**	(1,500)
Allowance for inventories	**246**	1,802
Reversal of impairment loss on loan/trade receivables	**(27,000)**	(26)
Share-based payments	**–**	65,000
Share of results of associates	**35,290**	(18,353)
Operating cash flows before movements in working capital	**36,525**	(23,859)
Decrease (increase) in inventories	**4,639**	(14,182)
Decrease in trade and bills receivables, deposits and prepayments	**129,809**	12,507
Decrease (increase) in convertible bonds designated as financial assets at fair value through profit or loss	**7,823**	(1,014)
Decrease in amount due from a jointly controlled entity	**–**	2,274
(Increase) decrease in held for trading investments	**(1,068)**	9,499
Decrease in deposits placed with financial institutions	**754**	2,276
Increase in trade payables and accruals	**12,037**	5,005
Cash generated from (used in) operations	**190,519**	(7,494)
Income tax paid	**(6,044)**	–
NET CASH GENERATE FROM (USED IN) OPERATING ACTIVITIES	**184,475**	(7,494)

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	2011 *HK$'000*	2010 *HK$'000* (Restated)
INVESTING ACTIVITIES		
Acquisition of a subsidiary *(Note 44)*	**(231,032)**	–
Purchases of property, plant and equipment	**(86,862)**	(665)
Placing of pledged bank deposit	**(56,846)**	(6,200)
Purchases of available-for-sale investments	**(500)**	(2,000)
Decrease (increase) in loans receivables	**78,629**	(20,280)
Interest received	**9,417**	2,048
Proceed from disposal of derivative financial assets	**1,800**	–
Repayment from (advances to) associates	**424**	(5,327)
Proceed from disposal of property, plant and equipment	**320**	2,163
Proceeds on disposal of available-for-sale investments	**–**	17,924
Disposal of subsidiaries *(Note 45)*	**–**	4,985
NET CASH USED IN INVESTING ACTIVITIES	**(284,650)**	(7,352)
FINANCING ACTIVITIES		
Other loans raised	**373**	4,533
Interest paid	**(9,940)**	(643)
Repayments of bank loans	**(6,208)**	–
Repayments of obligation under a finance lease	**(543)**	(175)
Finance lease charges paid	**(55)**	(24)
Repayment of other loans	**–**	(5,866)
Proceeds from issuance of convertible bonds	**–**	260,700
Proceeds from issue of shares upon exercises of share options	**–**	3,120
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(16,373)**	261,645
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(116,548)**	246,799
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**265,898**	19,611
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(326)**	(512)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**149,024**	265,898
Cash and cash equivalents at the end of the year, represented by:		
Bank balances and cash	**149,024**	265,898

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 jointly controlled entities 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, provision of terminal and logistics services and investment holding. The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in Note 52.

Prior year adjustments

In prior years, investment in jointly controlled entities were accounted for using equity method.

In the current year, the Group acquired a subsidiary with jointly controlled entities operated in terminal and logistics business. In view of the nature of operations and significance of the jointly controlled entities to the Group's financial position, the Group considers to adopt proportionate consolidation to recognise its interests in jointly controlled entities, for achieving a better presentation of this new reportable and operating segments to the Group. In accordance with the proportionate consolidation method, the Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements. 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 jointly controlled entities recognised at the date of acquisition is recognised as goodwill. The goodwill is presented separately in the consolidated statement of financial position. Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a business or a jointly controlled entity. 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. Under the equity method adopted in prior years, interests in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. The change in accounting policy has been applied retrospectively and there is no effect on the accumulated losses, opening net assets nor the losses for the periods presented.

1. GENERAL (Continued)

Prior year adjustments (Continued)

The effects of adoption of proportionate consolidation under Hong Kong Accounting Standards 31 Interests in Joint Ventures on the consolidated statement of financial position of the Group as at 1 January 2010 and 31 December 2010 is as follows:

	As at 1/1/2010 (originally stated)	Adjustments	As at 1/1/2010 (restated)	As at 31/12/2010 (originally stated)	Adjustments	As at 31/12/2010 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Increase in property, plant and equipment	20,049	1,085	21,134	17,585	928	18,513
Decrease in interests in a jointly controlled entity	7,357	(7,357)	–	8,044	(8,044)	–
Total Increase in non-current assets	304,406	(6,272)	298,134	484,528	(7,116)	477,412
Increase in inventories	9,456	2,085	11,541	25,976	4,418	30,394
Increase in trade and bills receivables, deposits and prepayments	162,811	1,714	164,525	124,029	2,041	126,070
Increase in bank balances and cash	14,591	5,020	19,611	263,003	2,895	265,898
Total increase in current assets	587,871	8,819	596,690	745,745	9,354	755,099
Increase in trade payables and accruals	(12,270)	(2,174)	(14,444)	(21,709)	(1,827)	(23,536)
Increase in taxation payable	(32,398)	(373)	(32,771)	(36,743)	(411)	(37,154)
Total increase in current liabilities	64,606	2,547	67,153	68,352	2,238	70,590

Notes to the Consolidated Financial Statements

1. GENERAL (Continued)

Prior year adjustments (Continued)

The effects of adoption of proportionate consolidation under Hong Kong Accounting Standards 31 Interests in Joint Ventures on the consolidated statement of comprehensive income of the Group for the year ended 31 December 2010 is as follows:

	For the year ended 31 December 2010		
	Originally stated	**Adjustments**	**Restated**
	HK$'000	*HK$'000*	*HK$'000*
Increase in turnover	188,359	17,149	205,508
Increase in revenue	156,930	17,149	174,079
Increase in cost of sales	(135,575)	(13,347)	(148,922)
Increase in gross profit	21,355	3,802	25,157
Increase in other income, gain and loss	8,223	9	8,232
Increase in selling and distribution expenses	(9,133)	(457)	(9,590)
Increase in administrative expenses	(127,228)	(1,722)	(128,950)
Decrease in share of result of a jointly controlled entity	1,428	(1,428)	–
Decrease in loss before taxation	(89,123)	204	(88,919)
Increase in taxation	(4,387)	(204)	(4,591)

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

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendment to HKFRS 1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Amendments to HKAS 24 (Revised)	Related Party Disclosures
Amendment to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Interpretation ("Int") 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs has had no material impact on the Group's performance and position for the current and prior years and/or the disclosures set out in these consolidated 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.

HKFRS1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[1]
	First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans[2]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Taxes: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – INT 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 July 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

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

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate the application of the amendments to HKFRS 7 will affect the group's disclosure regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

- 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 the 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 reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

HKFRS 9 Financial Instruments (Continued)

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the 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 presented 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 presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2015 and that the application of the new standard may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that affect until detail review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below:

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joints arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

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

New and revised Standards on consolidation, joint arrangements, associates and disclosures (Continued)

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in HKFRS 10). In addition, the application of HKFRS 11 may result in changes in the accounting of the Group's jointly controlled entities that are currently accounted for using proportionate consolidation. Under HKRFS 11, those jointly controlled entities will be classified as a joint operation or joint venture, depending on the rights and obligations of the policies to the joint arrangement. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 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 affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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

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

Amendment to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the time basis.

The amendments to HKAS 1 are effective for the annual period beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to HKAS 12 Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The directors of the Company anticipate that the application of the amendments to HKAS 12 will not have material impact on the results and the financial position of the Group.

Other than disclosed above, 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.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

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 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 principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of during the year are included in the consolidated income statement from the effective dates of acquisition.

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

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

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 subsidiaries 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted (please describe how the adjustment to non-controlling interests is determined) and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

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, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are 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.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business or a jointly controlled entity which is accounted for using proportionate consolidation is carried at cost less 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. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. 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.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

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

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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

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 forms part of the carrying amount of the investment. 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.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

Where a group entity transacts with its associates, 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 interests in the associate that are not related to the Group.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a business or a jointly controlled entity.

Revenue recognition

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

Income from provision of terminals and logistics services is recognised when the respective services are rendered.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Income from leasing of terminal facilities and equipment is recognised when the terminals and related facilities are leased upon request with no fixed lease term.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economics benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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 income 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 and buildings held for use in the production or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other fixed assets, commences when the assets are ready for their intended uses.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment property

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

Investment property is initially 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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Intangible asset

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses 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, unless they are attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

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

Leasehold land and building

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

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.

Sea use rights

The payment to obtain sea use rights are stated initially at cost. The payments are amortised on a straight-line basis over the respective terms stated on the sea area use certificates.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, trade and bills receivables, 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).

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 considered to be 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 trade receivables, assets that are assessed not to be impaired individually are, in addition, 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, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

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

When an available-for-sale equity investments to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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 through 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 as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and points 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities (including trade payables and accruals, bank and other loans, convertible bonds, obligation under a finance lease 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 in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. 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 accumulated losses. 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.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises and associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

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 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.

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. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Taxation

Income tax expense 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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.

Current and 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 current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Retirement benefit costs

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

Share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share 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 original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When 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.

Adoption of proportional consolidation accounting for jointly controlled entities

In the current year, the Group acquired a subsidiary with jointly controlled entities operated in terminal and logistics business. In view of the nature of operations and significance of the jointly controlled entities to the Group's financial position, the Group considers to adopt proportionate consolidation to recognise its interests in jointly controlled entities, for achieving a better presentation of this new reportable and operating segments to the Group. In accordance with the proportionate consolidation method, the Group's share of each of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

Key sources of estimation uncertainty

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

Estimated impairment loss on interest in associates

Determining whether interests in associates are impaired requires an estimation of the future cash flows expected to arise from the associates in order to calculate the recoverable amounts. Where the estimated future cash flows are less than expected, a material impairment loss may arise. During the year ended 31 December 2011, carrying amount of the interests in associates are approximately HK$155,616,000 (2010: HK$343,666,000). 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, impairment loss of approximately HK$132,302,000 is recognised during the year (2010: nil).

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

Key sources of estimation uncertainty (Continued)

Useful lives of property, plant and equipment

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

Estimated impairment loss on trade, loan and other receivables

The Group makes impairment loss based on an assessment of the recoverability of trade, loan and other receivables. Allowances are applied to trade, loan and other receivables 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 receivables 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 2011, the carrying amount of trade receivables is approximately HK$72,411,000 (net of impairment loss of approximately HK$16,834,000) (31 December 2010: carrying amount of approximately HK$47,862,000, net of impairment loss of approximately HK$9,736,000). As at 31 December 2011, the carrying amount of loan receivables is approximately HK$21,351,000 (31 December 2010: carrying amount of approximately HK$72,980,000). As at 31 December 2011, the carrying amount of other receivables is approximately HK$7,407,000 (31 December 2010: carrying amount of approximately HK$78,208,000).

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. As at 31 December 2011, the carrying amount of inventories is HK$25,509,000, net of accumulated allowance of HK$7,465,000 (2010: Carrying value: HK$30,394,000, net of accumulated allowance of HK$7,219,000).

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 2011, the carrying amount of available-for-sales investments is approximately HK$41,038,000 (2010: HK$110,171,000).

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

Key sources of estimation uncertainty (Continued)

Estimated impairment loss on available-for-sale investments (Continued)

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$2,500,000 (2010: HK$2,000,000) 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 goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of goodwill is HK$39,949,000 (2010: Nil). Details of the recoverable amount calculation are disclosed in note 20 and no impairment loss had been recognised during the year ended 31 December 2011.

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 2011, the carrying amount of convertible bonds designated as financial assets at fair value through profit or loss and derivatives were approximately HK$45,179,000 and nil (2010: HK$106,734,000 and HK$10,952,000) 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.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31 December 2011 HK$'000	31 December 2010 HK$'000 (Restated)	1 January 2010 HK$'000 (Restated)
Financial assets			
Loans and receivables (including bank balances and cash)	**340,462**	523,933	258,585
Available-for-sale investments	**41,038**	110,171	137,101
Fair value through profit or loss	**55,189**	199,250	216,478
	436,689	833,354	612,164
Financial liabilities at amortised cost			
Convertible bonds	**194,301**	229,101	–
Other financial liabilities	**325,081**	84,989	25,170
	519,382	314,090	25,170

(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, trade and bills receivables, deposits, trade payables, 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.

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 5% (2010: 4%) of the Group's sales and approximately 9% (2010: 9%) of the Group's purchases are denominated in currencies other than the functional currency of the group entities. 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, trade receivables, trade payables 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:

	2011	2010
	HK$'000	*HK$'000*
Assets		
USD	**996**	377
Japanese Yen	**369**	1,118
Euro	**594**	190
RMB	**1,908**	–
	3,867	1,685
Liabilities		
USD	**2,429**	3,476
Japanese Yen	**4,955**	8,864
Euro	**2,681**	3,193
RMB	**40**	–
	10,105	15,533

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For the year ended 31 December 2011

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% (2010: 5%) increase and decrease in HK$ against relevant foreign currencies. 5% (2010: 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% (2010: 5%) change in foreign currency rates. A positive number indicates decrease in post-tax loss (2010: an increase in post-tax profit) for the year when HK$ strengthens 5% (2010: 5%) against the relevant foreign currencies. For a 5% (2010: 5%) weakening of HK$ against the relevant currencies, there would be an equal but opposite impact on the (loss) profit for the year.

	2011	2010
	HK$'000	*HK$'000*
Japanese Yen		
Profit for the year	**229**	387
Euro		
Profit for the year	**104**	150

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.

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 (2010: 200 basis points) and all other variables were held constant, there was an decrease in post-tax loss by approximately HK$2,643,000 (2010: HK$5,376,000). If interest rates had decreased by 200 basis points (2010: 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.

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% (2010: 30%) higher/lower:

– post-tax loss for the year ended 31 December 2011 would decrease/increase by approximately HK$16,557,000 (2010: post-tax profit would increase/decrease by approximately HK$56,489,000) 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$11,561,000 (2010: HK$32,451,000) for the Group as a result of the changes in fair value of available-for-sale investments.

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 2011 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 2011, the Group had certain concentration of credit risk as 34% (2010: 10%) and 74% (2010: 25%) of the total trade and bills receivables were due from the Group's largest and the five largest customers respectively.

As at 31 December 2011 and 2010, the Group had significant concentration of credit risk arising from amounts due from associates as 85% (2010: 85%) of the total amounts due from associates were due from one associate.

As at 31 December 2011, the Group had certain concentration of credit risk as 27% (2010: 58%) 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 trade receivables, loan receivables 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 67% (2010: 66%) of the total trade receivables as at 31 December 2011.

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 38 and 39. 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 2011					
Trade payables and accruals	**166,337**	**–**	**–**	**166,337**	**166,337**
Obligation under a finance lease	**598**	**399**	**–**	**997**	**960**
Bank and other loans	**93,425**	**10,175**	**–**	**103,600**	**102,541**
Convertible bonds	**1,800**	**228,000**	**–**	**229,800**	**194,301**
Promissory note	**3,000**	**63,000**	**–**	**66,000**	**55,243**
Financial Guarantee contract	**151,040**	**–**	**–**	**151,040**	**–**
	416,200	**301,574**	**–**	**717,774**	**519,382**
As at 31 December 2010 (Restated)					
Trade payables and accruals	22,758	–	–	22,758	22,758
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
	37,941	5,398	373,199	416,538	314,096

6. FINANCIAL INSTRUMENTS (Continued)

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

(iii) Liquidity risk (Continued)

	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 1 January 2010 (Restated)					
Trade payables and accruals	13,655	–	–	13,655	13,655
Bank and other loans	11,976	–	–	11,976	11,515
	25,631	–	–	25,631	25,170

(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 current financial assets and current financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

The management also considers that the fair value of the long-term portion of liabilities approximates to their carrying amount as they are carried at amortised cost using the effective interest rate method.

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are based on observable market data (unobservable inputs).

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Available-for-sale financial assets				
– Listed equity securities	**38,538**	**–**	**–**	**38,538**
Financial assets at FVFPL				
– Convertible bonds designated as financial assets at FVTPL	**–**	**45,179**	**–**	**45,179**
– Held for trading investments	**10,010**	**–**	**–**	**10,010**
	48,548	**45,179**	**–**	**93,727**

	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

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

7. TURNOVER

Turnover represents the amounts received and receivable from sales of polishing materials and equipments; and provision of terminal and logistics services, 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:

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Sales of polishing materials and equipments	**124,699**	174,078
Provision of terminal and logistics services	**140,984**	–
Gross proceeds from sales of held for trading investments	**1,207**	31,429
Interest income	**–**	1
	266,890	205,508

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 and operating segments under HKFRS 8 are as follows:

Polishing materials and equipments	– sales of polishing materials and equipments
Terminal and logistics services	– loading and discharging services, storage services, and leasing of terminal facilities and equipment
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 45, 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 was continued through subcontracting arrangements.

Information regarding the above segments is reported below.

8. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

	Revenue		Segment result	
	For the year ended 31 December			
	2011	2010 (Restated)	**2011**	2010 (Restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue				
Polishing materials and equipment	**124,699**	174,078	**(14,935)**	(4,509)
Terminal and logistics	**140,984**	–	**60,406**	–
Investment	**–**	1	**(421,602)**	5,815
	265,683	174,079	**(376,131)**	1,306
Unallocated corporate expenses			**(5,675)**	(69,793)
Unallocated other income and gain			**5**	5,861
Unallocated finance costs			**(38,676)**	(26,293)
Loss before taxation			**(420,477)**	(88,919)

The accounting policies of the operating 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.

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 2011

	Polishing materials and equipments *HK$'000*	Terminal and logistics *HK$'000*	Investment *HK$'000*	Consolidated *HK$'000*
ASSETS				
Segment assets	**82,449**	**871,197**	**280,390**	**1,234,036**
Unallocated corporate assets				**26,932**
Consolidated total assets				**1,260,968**
LIABILITIES				
Segment liabilities	**15,517**	**289,915**	**28,182**	**333,614**
Unallocated corporate liabilities				**408,090**
Consolidated total liabilities				**741,704**

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$'000* (Restated)	Investment *HK$'000*	Consolidated *HK$'000* (Restated)
ASSETS			
Segment assets	164,483	988,545	1,153,028
Unallocated corporate assets			79,483
Consolidated total assets			1,232,511
LIABILITIES			
Segment liabilities	14,552	10,466	25,018
Unallocated corporate liabilities			327,010
Consolidated total liabilities			352,028

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 operating segments other than investment property, certain bank balances and cash, 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 2011

	Polishing materials and equipments *HK$'000*	Terminal and logistics *HK$'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)*	319	619,063	–	–	619,382
Allowance on inventories	246	–	–	–	246
Amortisation of sea use rights	–	1,310	–	–	1,310
Amortisation of prepaid lease payments	–	274	–	–	274
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	–	–	53,732	–	53,732
Decrease in fair value of held for trading investments	–	–	74,795	–	74,795
Depreciation of property, plant and equipment	4,052	9,619	445	–	14,116
Interest on margin loans	–	–	374	–	374
Finance lease charges	55	–	–	–	55
Loss on disposal of held for trading investments	–	–	474	–	474
Loss on disposal of convertible bond designed as financial assets at fair value through profit or loss	–	–	623	–	623
Loss on disposal of derivative financial assets	–	–	6,979	–	6,979
Interest income from banks and financial institutions	–	2	1,269	5	1,276
Interest income from loan receivables	826	–	3,733	–	4,559
Interest income from amount due from an associate	–	–	409	–	409
Interest income from convertible bonds designated as financial assets at fair value through profit or loss	–	–	121	–	121
Impairment loss on available-for-sale investment	–	–	71,802	–	71,802
Impairment loss on interests in associates	–	–	132,302	–	132,302
Loss on deemed partial disposal of an associate	–	–	20,782	–	20,782
Impairment loss on amounts due from associates	–	–	33,000	–	33,000
Impairment loss on trade receivables	6,862	–	236	–	7,098
Interests in associates	–	–	155,616	–	155,616
Loss on disposal of property, plant and equipment	–	–	603	–	603
Reversal of impairment loss on loan receivables	–	–	(27,000)	–	(27,000)
Share of losses of associates	–	–	35,290	–	35,290

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

As at 31 December 2011 (Continued)

	Polishing materials and equipments HK$'000	Terminal and logistics HK$'000	Investment HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Effective interest expenses on convertible bonds	–	–	–	27,044	27,044
Effective interest expenses on promissory note	–	–	–	6,866	6,866
Finance costs on bank loans and overdraft	–	–	–	4,766	4,766
Increase in fair value of investment property	–	–	–	(500)	(500)
Income tax expense	724	8,262	3,126	–	12,112

As at 31 December 2010

	Polishing materials and equipments HK$'000 (Restated)	Investment HK$'000	Unallocated HK$'000	Consolidated HK$'000 (Restated)
Amounts included in the measure of segment profit or loss or segment assets:				
Additions to non-current assets *(Note)*	2,329	188,280	–	190,609
Allowance on inventories	1,802	–	–	1,802
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
Depreciation of property, plant and equipment	4,258	612	–	4,870
Interest on margin loans	–	155	–	155
Interest income from banks and financial institutions	5	12	4	21
Interest income from loan receivables	502	5,346	–	5,848
Interest income from amount due from an associate	–	1,348	–	1,348
Interest income from convertible bonds designated as financial assets at fair value through profit or loss	–	311	–	311
Finance lease charges	24	–	–	24
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)
Impairment loss on trade receivables	3,418	–	–	3,418
Interests in associates	–	343,666	–	343,666
Loss on disposal of property, plant and equipment	4,255	26	–	4,281
Reversal of impairment loss on trade receivables	(26)	–	–	(26)
Share of losses of associates	–	(18,353)	–	(18,353)

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

As at 31 December 2010 (Continued)

	Polishing materials and equipments *HK$'000* (Restated)	Investment *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000* (Restated)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Effective interest expenses on convertible bonds	–	–	19,909	19,909
Effective interest expenses on promissory note	–	–	5,896	5,896
Finance costs on bank loans and overdraft	–	–	488	488
Increase in fair value of investment property	–	–	(600)	(600)
Income tax expense	736	3,855	–	4,591

Note: Non-current assets exclude financial instruments, deferred tax asset and assets classified as held for sale. The additions to non-current assets include additions arising from acquisition of a subsidiary amounting to HK$492,571,000 (2010: nil).

Revenue from major products

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

	2011 ***HK$'000***	2010 *HK$'000* (Restated)
Sale of polishing materials and equipments	**124,699**	174,078
Terminal and logistics	**140,984**	–
Investment	**–**	1
	265,683	174,079

8. SEGMENT INFORMATION (Continued)

Geographical information

The Group's polishing materials and equipments divisions are mainly located in Hong Kong (country of domicile) and the PRC. Terminal and logistics division is located in 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	
	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Hong Kong	**41,903**	29,035
The PRC	**217,898**	127,876
Other Asian regions	**2,767**	12,755
North America and Europe	**1,830**	1,018
Other countries	**1,285**	3,395
	265,683	174,079

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	
	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Hong Kong	**173,699**	366,301
The PRC	**619,013**	928
	792,712	367,229

Information about major customers

During the two years ended 31 December 2011 and 2010, no revenues from transactions with any single external customer amounted to 10% or more of the Group's revenues.

9. OTHER INCOME, GAIN AND LOSS

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
Interest income from banks and financial institutions	**1,276**	21
Interest income from loan receivables	**4,559**	5,848
Interest income from amount due from an associate *(Note 29)*	**409**	1,348
Interest income from convertible bonds designated as financial assets at fair value through profit or loss	**121**	311
Net foreign exchange gains	**13**	43
Rental income	**497**	39
Reversal of impairment loss on loan/trade receivables	**27,000**	26
Bad debt recovered	**–**	7
Sundry income	**756**	589
	34,631	8,232

10. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interests on bank loans and overdraft wholly repayable within five years	**4,766**	488
Finance lease charges	**55**	24
Interest on margin loans	**374**	155
Effective interest expenses on convertible bonds	**27,044**	19,909
Effective interest expenses on promissory note wholly repayable within five years	**6,866**	5,896
	39,105	26,472

11. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

(A) Directors' emoluments

The emoluments paid or payable to each of the nine (2010: eight) directors were as follows:

2011

Name of director	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors				
Mr. Cheng Kwok Woo	–	1,004	48	1,052
Mr. Cheng Kwong Cheong *(Note iii)*	–	482	24	506
Ms. Yeung Sau Han, Agnes	–	260	12	272
Ms. Chan Shui Sheung, Ivy	–	390	19	409
Mr. Tin Ka Pak *(Note iv)*	–	194	6	200
Independent Non-executive Directors				
Mr. Leung Yuen Wing	180	–	–	180
Mr. Soong Kok Meng *(Note i)*	6	–	–	6
Mr. Chow Fu Kit, Edward	180	–	–	180
Mr. Lam Kwok Hing, Wilfred *(Note ii)*	129	–	–	129
Total for the year 2011	495	2,330	109	2,934

2010

Name of director	Fees HK$'000	Salaries and other benefits HK$'000	Share-based payments HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive Directors					
Mr. Cheng Kwok Woo	–	1,004	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	155	–	–	–	155
Mr. Chow Fu Kit, Edward	155	–	–	–	155
Total for the year 2010	465	3,208	65,000	139	68,812

11. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS (Continued)

(A) Directors' emoluments (Continued)

No directors waived or agreed to waive any emoluments in the two years ended 31 December 2011 and 2010.

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

Note ii: Mr. Lam Kwok Hing, Wilfred was appointed as an independent non-executive director on 14 April 2011.

Note iii: Mr. Cheng Kwong Cheong resigned as an executive director on 30 June 2011.

Note iv: Mr. Tin Ka Pak resigned as an executive director on 30 June 2011.

(B) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2010: four) was director of the Company whose emoluments are included in the disclosures in Note 11(A) above. The emoluments of the remaining four (2010: one) highest paid individuals were as follows:

	2011	2010
	HK$'000	*HK$'000*
Salaries and other benefits	**3,997**	1,040
Retirement benefits scheme contributions	**60**	12
	4,057	1,052

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
HK$1,000,001 to HK$1,500,000	**3**	1

During the two years ended 31 December 2011 and 2010, 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.

12. TAXATION

	2011	2010
	HK$'000	*HK$'000*
		(Restated)
The charge comprises:		
Current taxation		
– Hong Kong Profits Tax	**1,292**	4,345
– PRC Enterprise Income Tax	**8,208**	204
	9,500	4,549
Deferred taxation *(Note 42)*	**2,612**	42
	12,112	4,591

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.

Pursuant to the letter issued by the relevant PRC authority on 7 March 2005, under Guoshuihan, [2005] No.6 (日照市國家税務局日國税函[2005]6號), Rizhao Lanshan Wansheng Harbour Company Limited ("Rizhao") is exempted from PRC Enterprise Income Tax ("EIT") for the first five years commencing from its first profit-making year of operation and thereafter, Rizhao will be entitled to a 50% relief from EIT for the following five years. The charge of EIT for the year has been provided for after taking these tax incentives into account. Rizhao started these exemption from 2005 when its first profit-making year of operation began. Rizhao was entitled to a 50% relief from the EIT and charged at 12.5% for the year ended 31 December 2011.

Shanghai PME-XINHUA Polishing Materials Systems ("Shanghai PME-XINHUA") is Sino-foreign equity joint ventures engaging in the production business and is exempted from taxation for the first two profitable years and a 50% relief from the national EIT rate for the next three profitable years thereafter. As a result, Shanghai PME-XINHUA is in the exemption periods and the income tax is calculated at 12.5% for the two years ended 31 December 2011 and 2010.

12. TAXATION (Continued)

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

	2011 HK$'000	2010 HK$'000 (Restated)
Loss before taxation	(420,477)	(88,919)
Tax at Hong Kong Profits Tax rate of 16.5% (2010: 16.5%)	(69,379)	(14,672)
Tax effect of share of results of associates	5,823	(3,028)
Tax effect of expenses not deductible for tax purpose	49,444	18,768
Tax effect of income not taxable for tax purpose	(4,666)	(3,861)
Tax effect of tax loss not recognised	28,947	7,543
Utilisation of tax loss previously not recognised	(17)	(92)
Effect of different tax rates of subsidiaries operating in other jurisdictions	4,907	(41)
Effect of tax exemption granted to PRC subsidiaries	(5,362)	(26)
Tax effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	2,415	–
Tax charge for the year	12,112	4,591

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

13. LOSS FOR THE YEAR

	2011 HK$'000	2010 HK$'000 (Restated)
Loss for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	14,116	4,870
Amortisation of prepaid lease payments	274	–
Amortisation of sea use rights	1,310	–
Staff costs, including directors' emoluments and share-based payments *(Note)*	23,729	89,216
Auditors' remuneration	1,180	880
Impairment loss on trade receivables (included in administrative expenses)	7,098	3,418
Allowance for inventories (included in cost of sales)	246	1,802
Loss on disposal of property, plant and equipment	603	4,281
Cost of inventories recognised as expenses	179,711	147,273
Minimum lease payment in respect of rental premises	2,746	2,772
Share of tax of associates (included in share of results of associates)	72	2,100

Note: For the year ended 31 December 2011, no share-based payments are included in staff costs (2010: HK$65,000,000).

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

15. LOSS PER SHARE

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

	2011	2010
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(432,451)**	(93,655)

Number of shares

	2011	2010
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,883,321**	1,875,392

	2011	2010
Basic loss per share *(in HK cents)*	**(11.14)**	(4.99)
Diluted loss per share *(in HK cents)*	**(11.14)**	(4.99)

Diluted loss per share for the year ended 31 December 2011 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 since their exercise would result in a decrease in loss per share.

The computation of diluted earnings per share does not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for both 2011 and 2010.

16. PROPERTY, PLANT AND EQUIPMENT

	Building	Terminal facility	Terminals equipment	Plant and machinery	Leasehold improvements, furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
AT COST OR VALUATION								
At 1 January 2010, as restated	–	–	–	36,396	12,978	3,410	–	52,784
Additions	–	–	–	239	–	2,103	41	2,383
Disposals	–	–	–	(13)	(8)	(350)	–	(371)
Reclassification upon completion	–	–	–	22	12	–	(34)	–
Exchange realignment	–	–	–	38	4	16	–	58
At 31 December 2010, as restated	–	–	–	36,682	12,986	5,179	7	54,854
Additions	–	633	2,244	263	136	65	83,521	86,862
Disposals	–	–	–	(722)	(1,664)	(868)	–	(3,254)
Reclassification upon completion	–	19,192	–	7	–	–	(19,199)	–
Acquisition of a subsidiary	1,089	214,077	37,084	91	–	717	110,259	363,317
Exchange realignment	24	4,687	770	47	4	42	2,414	7,988
At 31 December 2011	**1,113**	**238,589**	**40,098**	**36,368**	**11,462**	**5,135**	**177,002**	**509,767**
ACCUMULATED DEPRECIATION								
At 1 January 2010, as restated	–	–	–	18,541	10,370	2,739	–	31,650
Provided for the year	–	–	–	3,622	927	321	–	4,870
Eliminated on disposals	–	–	–	(3)	(1)	(204)	–	(208)
Exchange realignment	–	–	–	19	1	9	–	29
At 31 December 2010, as restated	–	–	–	22,179	11,297	2,865	–	36,341
Provided for the year	21	4,395	5,286	3,620	691	103	–	14,116
Eliminated on disposals	–	–	–	(453)	(1,010)	(868)	–	(2,331)
Exchange realignment	–	26	85	4	–	5	–	120
At 31 December 2011	**21**	**4,421**	**5,371**	**25,350**	**10,978**	**2,105**	**–**	**48,246**
CARRYING VALUES								
At 31 December 2011	**1,092**	**234,168**	**34,727**	**11,018**	**484**	**3,030**	**177,002**	**461,521**
At 31 December 2010, as restated	–	–	–	14,503	1,689	2,314	7	18,513
At 1 January 2010, as restated	–	–	–	17,855	2,608	671	–	21,134

16. 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:

Building	30 years
Plant and machinery	10 years
Terminal facility *(Note)*	50 years or over the lease term of the sea use right whichever is shorter
Terminal equipment	3 to 12 years
Leasehold improvements, furniture and fixtures	3 to 5 years
Motor vehicles	3 to 8 years

Note: These represent berths and storage areas from sea reclamation, thereon useful lives were estimated according to the duration of prepaid lease payment.

At 31 December 2011, motor vehicles included an amount of approximately HK$1,175,000 in respect of assets held under a finance lease (2010: HK$1,636,000).

As 31 December 2011, the Group has pledged certain of terminal facilities and equipment with carrying amount of approximately HK$26,815,000 to secure the bank borrowings granted to the Group (2010: Nil).

17. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1 January 2010	4,100
Increase in fair value recognised in the consolidated income statement	600
At 31 December 2010 and 1 January 2011	4,700
Increase in fair value recognised in the consolidated income statement	500
At 31 December 2011	**5,200**

The investment property of the Group was revaluated by Jointgoal Surveyors Limited (2010: Jointgoal Surveyors Limited), an independent firm of registered professional surveyors not connected to the Group. Jointgoal Surveyors Limited (2010: Jointgoal Surveyors 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 2011 and 2010 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.

18. PREPAID LEASE PAYMENTS

The leasehold land held in the PRC was held under medium-term lease.

	2011	2010
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current asset	**18,624**	–
Current asset	**414**	–
	19,038	–

19. AVAILABLE-FOR-SALE INVESTMENTS

	2011	2010
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value based on quoted market bid price		
Carrying amount at 1 January	**108,171**	137,101
Impairment on available-for-sale investments	**(69,633)**	–
Net fair value gain on available-for-sale investments recognised in consolidated statement of comprehensive income	**–**	2,656
Disposal	**–**	(31,586)
Carrying amount at 31 December	**38,538**	108,171
Unlisted equity securities *(Note (a))*	**2,500**	2,000
	41,038	110,171

Note (a): The investment in unlisted equity securities 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.

20. GOODWILL

	HK$'000
COST	
At 1 January 2010, 31 December 2010 and 1 January 2011	161,008
Arising on acquisition of a subsidiary *(Note 44)*	39,949
At 31 December 2011	**200,957**
ACCUMULATED IMPAIRMENT LOSS	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	161,008
CARRY VALUES	
At 31 December 2011	**39,949**
At 31 December 2010	–

During the year, the Group acquired Upmove International Limited ("Upmove") with goodwill of approximately HK$39,949,000. Details are set out in note 44.

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 terminal and logistics segment.

Goodwill of HK$161,008,000 allocated to the investment segment was fully impaired as at 31 December 2011 and 2010.

Impairment testing on goodwill

For the purposes of impairment testing, goodwill had been allocated to two (2010: one) individual cash generating unit as at 31 December 2011. The carrying amounts of goodwill (net of accumulated impairment losses) as at the end of the reporting period allocated to these are as follows:

	2011	2010
	HK$'000	*HK$'000*
Investment segment	**–**	–
Terminal and logistics segment	**39,949**	–
	39,949	–

20. GOODWILL (Continued)

Impairment testing on goodwill (Continued)

Terminal and logistics segment

The recoverable amount of terminal and logistics operation is determined from value-in-use calculations using cash flow projections based on terminal budget approved by the management covering 5 year period, and the discount rate applied to the cash flow projections is 12%. Zero growth rate is applied to extrapolate the cash flows beyond five year period. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculation related to the estimation of cash inflows and outflows which include budgeted sales and budgeted gross margin. This estimation is determined based on the unit's past performance and management's expectation for the market development.

21. SEA USE RIGHTS

The payments to obtain sea use rights are initially at cost. The payments are amortised on a straight-line basis over the respective terms stated on the sea area use certificates. According to the sea area use certificates, the Group is granted for terms ranging from 48 to 50 years to construct facilities and structure at specified areas of the sea and carry out terminals and logistics operations in the PRC.

	HK$'000
COST	
Arising on acquisition of a subsidiary	110,354
Exchange realignment	2,416
	112,770
AMORTISATION	
Charge for the year	1,310
Exchange realignment	8
At 31 December 2011	**1,318**
CARRYING VALUES	
At 31 December 2011	**111,452**

22. INTERESTS IN ASSOCIATES

	2011 HK$'000	2010 HK$'000
Cost less accumulated impairment of investment in associates		
– Listed in Hong Kong	**174,635**	174,635
– Unlisted	**55,926**	188,228
Share of post-acquisition results and other comprehensive income	**(74,945)**	(19,197)
	155,616	343,666
Fair value of listed investments	**21,669**	39,324

China Railway

The directors of the Company are of the opinion that the Group is able to exercise significant influence over the financing and operating policy decision of China Railway Logistics Limited ("China Railway") through the appointment of certain directors of the Company as directors of China Railway. The Group would be able to exercise significant influence with over 20% voting rights in the broad of directors of China Railway throughout the year. Accordingly, the investment in China Railway is classified as an associate.

As at 31 December 2011, the Group held approximately 11.88% (2010: 14.23%) equity interests in China Railway, a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange. During the year ended 31 December 2011, China Railway placed and issued ordinary shares for increasing general working capital. As a result, the Group's interest in China Railway was diluted by 2.35% and resulted in a loss on deemed partial disposal of an associate approximately HK$20,782,000.

As at 31 December 2011 and 2010, 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 2011	2010	Principal activities
China Railway	Incorporated	Bermuda	Hong Kong	Ordinary shares	**11.88%**	14.23%	Provision of telecommunication and computer technology solutions
Express Advantage Limited ("Express Advantage")	Incorporated	British Virgin Island	Hong Kong	Ordinary shares	**20%**	20%	Investments in trading equity securities
Giant Billion Limited ("Giant Billion")	Incorporated	Hong Kong	Hong Kong	Ordinary shares	**49%**	49%	Provision of marketing, promotion, business consulting and technical services

22. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2011, included in the cost of investment in associates is goodwill of HK$56,000,000 (2010: HK$188,302,000) arising on acquisition of an associate. The movement of goodwill is set out below:

	HK$'000
COST	
At 1 January 2010, 31 December 2010 and 1 January 2011	188,302
Impairment loss on goodwill	(132,302)
At 31 December 2011	**56,000**

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

	2011 *HK$'000*	2010 *HK$'000*
Total assets	**915,817**	1,241,798
Total liabilities	**(121,388)**	(103,182)
Non-controlling interests	**(20,319)**	(17,202)
Net assets	**774,110**	1,121,414
Group's share of net assets of associates	**99,616**	155,364
Turnover	**94,804**	68,435
(Loss) profit for the year	**(396,392)**	153,141
Group's share of results of associates for the year	**(35,290)**	18,353

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

During the year ended 31 December 2009, the Group disposed of its 80% equity interest in Express Advantage to an Independent third party (the "Acquirer").

The Group had made advances of HK$17,738,000 and pledged certain of its listed securities with a total market value of approximately HK$244,000 (2010: HK$1,270,000) 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 2011 and 2010, 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. INVENTORIES

	31 December 2011 HK$'000	31 December 2010 HK$'000 (Restated)	1 January 2010 HK$'000 (Restated)
Raw materials	**1,365**	8,535	953
Finished goods	**24,144**	21,859	10,588
	25,509	30,394	11,541

25. TRADE RECEIVABLES, BILLS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	31 December 2011 HK$'000	31 December 2010 HK$'000 (Restated)	1 January 2010 HK$'000 (Restated)
Trade receivables	**72,411**	47,862	53,982
Bills receivable	**12,903**	–	375
Other receivables, deposits and prepayments *(Note)*	**7,407**	78,208	110,168
	92,721	126,070	164,525

The Group does not hold any collateral over these balances.

25. TRADE RECEIVABLES, BILLS RECEIVABLE, DEPOSITS AND PREPAYMENTS (Continued)

The Group has a policy of allowing credit period of 0 to 90 days to its trade receivables. 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.

	31 December 2011 *HK$'000*	31 December 2010 *HK$'000* (Restated)	1 January 2010 *HK$'000* (Restated)
Within 30 days	**34,846**	15,246	23,474
31 to 60 days	**5,523**	21,549	16,892
61 to 90 days	**31,598**	5,800	7,542
Over 90 days	**444**	5,267	6,074
	72,411	47,862	53,982

Bills receivable were aged within 180 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 trade receivables 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 losses already provided for in the consolidated financial statements.

The Group's neither past due nor impaired trade receivables with aggregate carrying amount of approximately HK$68,616,000 (2010: HK$43,306,000) mainly represent sales made to creditworthy customers for whom there was no recent history of default.

Included in the Group's receivable balance are trade receivables with aggregate carrying amount of approximately HK$3,795,000 (2010: HK$4,556,000) 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 trade receivables. The average age of these receivable is 95 days days (2010: 97 days).

25. TRADE RECEIVABLES, BILLS RECEIVABLE, DEPOSITS AND PREPAYMENTS (Continued)

Aging of trade debtors which are past due but not impaired

	31 December 2011 HK$'000	31 December 2010 HK$'000
Within 30 days	2,284	2,498
31 to 60 days	1,109	1,562
61 to 90 days	273	267
Over 90 days	129	229
	3,795	4,556

Movements in the accumulated impairment losses

	31 December 2011 HK$'000	31 December 2010 HK$'000
Balance at beginning of the year	9,736	19,858
Reversal of impairment loss	–	(26)
Impairment loss recognised in consolidated income statement	7,098	3,418
Written off	–	(13,514)
Balance at end of the year	16,834	9,736

Included in the accumulated impairment losses are individually impaired receivables with an aggregate balance of HK$16,834,000 (2010: HK$9,736,000) which have either been in disputes with the Group or are in financial difficulties.

Note:

Included in trade receivables, 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 in 2010. The deposit was settled during the year ended 31 December 2011.

26. INTEREST IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2011 and 2010, the Group had interest in jointly controlled entities as follows:

Name of entity	Nominal value of registered capital	Form of business structure and country of registration and operation	Proportion of nominal value of registered capital held by the Group		Group's percentage of voting power and profit sharing		Principal activity
			2011	2010	**2011**	2010	
Shanghai PME-XINHUA *(Note a)*	RMB10,000,000	Sino-foreign joint venture company PRC	**60%**	60%	**60%**	60%	Manufacturing and trading of polishing materials
Rizhao Lanshan Wansheng Harbour Company Limited 日照嵐山萬盛港業有限責任公司 ("Rizhao Lanshan") *(Note b)*	RMB140,000,000	Sino-foreign joint venture company PRC	**50%**	–	**50%**	–	Loading and discharging services, storage services, leasing of terminal facilities and equipment

The summarised audited financial information in respect of the Group's interest in jointly controlled entities which are accounted for using the proportionate consolidation with the line-by-line reporting format is set out below:

	31 December 2011 *HK$'000*	31 December 2010 *HK$'000*	1 January 2010 *HK$'000*
Current assets	**253,046**	16,516	14,666
Non-current assets	**812,332**	1,574	1,804
Current liabilities	**(215,814)**	(3,129)	(2,841)
Non-current liabilities	**(187,714)**	–	–
Income	**142,253**	28,581	22,540
Expenses	**(328,394)**	(26,201)	(20,280)

26. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

Note:

a) 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.

b) As set out in note 44, the Group acquired the entire issued share capital of Upmove International Limited ("Upmove") during the year. Upon the completion of the acquisition of Upmove, the Group indirectly own 50% of the equity interests in Rizhao Lanshan. Rizhao Lanshan is a sino-foreign joint venture company established in Mainland China and engaged in provision of terminal and logistics 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, Shandong province of the PRC.

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

	2011	2010
	HK$'000	*HK$'000*
Convertible bonds designated as financial assets at fair value through profit or loss		
China Fortune CB1 *(Note (a))*	**6,259**	16,401
China Fortune CB2 *(Note (a))*	**38,920**	82,510
China Agrotech Bond *(Note (b))*	**–**	7,823
	45,179	106,734

Note (a): 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 Financial Group Limited ("China Fortune"), a Company listed on the Main Board of Stock Exchange, 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. The Group has designated the remaining China Fortune CB1 as financial assets at fair value through profit or loss.

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

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

Note (a): (Continued)

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 loss of approximately HK$53,732,000 was recognised in the consolidated income statement for the year ended 31 December 2011 (2010: gain of HK$5,897,000).

Note (b): 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. No fair value change was recognised in the consolidated income statement for the year ended 31 December 2011 (2010: loss of HK$1,496,000). The China Agrotech Bond was redeemed by China Agrotech at the principal amount and all accrued interest at the maturity date during the year ended 31 December 2011.

For the year ended 31 December 2011 and 2010, 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.

Binomial option pricing model is used for valuation for the convertible bonds designated at financial assets at fair value through profit or loss. The inputs into the mode of each convertible bond as at 31 December 2011 and 2010 were as follows:

	2011	2010
China Fortune CB1		
Stock price	**HK$0.15**	HK$0.41
Conversion price	**HK$0.10**	HK$0.10
Volatility	**162.20%**	62.03%
Dividend yield	**0%**	0%
Option life (years)	**0.13**	1.13
Risk free rate	**0.180%**	0.390%
China Fortune CB2		
Stock price	**HK$0.15**	HK$0.41
Conversion price	**HK$0.16**	HK$0.16
Volatility	**110.04%**	61.31%
Dividend yield	**0%**	0%
Option life (years)	**0.50**	1.50
Risk free rate	**0.230%**	0.477%

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

	2011	2010
China Agrotech Bond		
Stock price	–	HK$0.79
Conversion price	–	HK$0.90
Volatility	–	50.18%
Dividend yield	–	0%
Option life (years)	–	0.56
Risk free rate	–	0.315%

28. DERIVATIVE FINANCIAL ASSETS

	2011 ***HK$'000***	2010 *HK$'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. The Group had exercised the rights of the warrants and options to exchange for ordinary shares of the relevant companies listed on the Stock Exchange and recognised as held for trading investments.

29. AMOUNTS DUE FROM ASSOCIATES

	2011 ***HK$'000***	2010 *HK$'000*
Amounts due from associates	**52,791**	52,806
Less: allowance for amounts due from associates	**(33,000)**	–
	19,791	52,806

The amounts are unsecured, non-interest bearing and repayable on demand except for an amount of approximately HK$17,738,000 (2010: HK$19,929,000) which bears interest at 8% per annum (2010: 8%) 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% (2010: 5% to 12% or prime rate plus 3% or 5%) per annum on the outstanding balances of the loans.

As at 31 December 2011, all of the outstanding balance of the loans are unsecured, of which HK$15,155,000 were guaranteed by another independent third parties to the counterparties of the loan receivables.

At 31 December 2010, loan receivables with an aggregate carrying amount of HK$42,000,000 were secured by listed equity shares with a market value of approximately HK$21,753,000, of which HK$22,000,000 were guaranteed by independent third parties to the counter parties of the loan receivables.

31. HELD FOR TRADING INVESTMENTS

	2011	2010
	HK$'000	*HK$'000*
Listed securities:		
Equity securities listed in Hong Kong, at fair value	**10,010**	81,564

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 0.001% to 0.05% (2010: 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 0.50% (2010: 0.001% to 0.45%) per annum. For the year ended 31 December 2011, the pledged deposits carry fixed interest rate of 0.001% per annum (2010: 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.

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 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 ceased to own the manufacturing facilities and maintained 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 45).

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
	Trade and 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	
	Trade payables 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) The disposal had been completed on 30 December 2010. Further details are set out in Note 45.

35. TRADE PAYABLES AND ACCRUALS

	31 December 2011 *HK$'000*	31 December 2010 *HK$'000* (Restated)	1 January 2010 *HK$'000* (Restated)
Trade payables	**13,995**	10,725	7,956
Other payables and accruals	**46,498**	12,811	6,488
Port construction fee payable	**107,071**	–	–
	167,564	23,536	14,444

The aged analysis of the trade payables presented based on the invoice date at the end of the reporting period of approximately HK$13,995,000 (2010: HK$10,725,000) which are included in the payables and accruals in the consolidated statement of financial position is as follows:

	31 December 2011 *HK$'000*	31 December 2010 *HK$'000* (Restated)	1 January 2010 *HK$'000* (Restated)
Within 30 days	**6,757**	4,689	5,897
31 to 60 days	**5,160**	4,508	982
61 to 90 days	**929**	1,448	750
Over 90 days	**1,149**	80	327
	13,995	10,725	7,956

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. PORT CONSTRUCTION FEE REFUND

The port construction fee refund was amounts received from the Ministry of Transport of the PRC. The usage of the port construction fee refund is subject to the approval of the relevant PRC government authority. As at 31 December 2011, no amount of the port construction fee refund has been utilised.

37. OBLIGATION UNDER A FINANCE LEASE

Analysed for reporting purposes as:

	2011 HK$'000	2010 HK$'000
Current liabilities	568	543
Non-current liabilities	392	960
	960	1,503

The lease term of the finance lease was three (2010: three) years. Interest rate is fixed at 5.70% (2010: 5.70%) per annum at the contract date. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2011 HK$'000	2010 HK$'000	2011 HK$'000	2010 HK$'000
Amounts payable under a finance lease:				
Within one year	598	598	568	543
In more than one year, but not more than two years	399	598	392	568
In more than two years, but not more than five years	–	399	–	392
	997	1,595	960	1,503
Less: future finance charges	(37)	(92)		
Present value of lease obligation	960	1,503		
Less: Amount due for settlement within twelve months (shown under current liabilities)			(568)	(543)
Amount due for settlements after twelve months			392	960

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

At 31 December 2011 and 2010, the Group's obligation under a finance lease was secured by the lessor's charge over the leased assets.

38. BANK AND OTHER LOANS

	2011 HK$'000	2010 HK$'000
Carrying amounts repayable:		
Within one year	**91,908**	9,357
In more than one year but not more than two years	**10,633**	–
Total bank and other loans	**102,541**	9,357
Less: Amounts due within one year shown under current liabilities	**(91,908)**	(9,357)
	10,633	–
Represented by:		
Other loans	**15,000**	–
Bank loans	**84,019**	6,208
Margin loans with financial institutions other than banks	**3,522**	3,149
	102,541	9,357
Analysed as:		
Secured	**87,541**	9,357
Unsecured	**15,000**	–
	102,541	9,357

38. BANK AND OTHER LOANS (Continued)

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

	2011	2010
	HK$'000	*HK$'000*
Fixed-rate loans	**18,522**	3,149
Variable-rate loans	**84,019**	6,208
	102,541	9,357

The Group's variable-rate loans carry interest at the standard lending rate of the People's Bank of China as at 31 December 2011.

The Group's variable-rate loans carry interest at the London Interbank Offered Rate ("LIBOR") plus a margin as at 31 December 2010.

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

	2011	2010
Effective interest rate		
Fixed-rate loans	**6.1% to 11.25%**	8.75% to 11.25%
Variable-rate loans	**Standard lending rate of the People's Bank of China**	LIBOR + 3%

For the year ended 31 December 2011, the margin loans were secured by the listed securities held under the margin accounts, with a total market value of approximately HK$9,305,000 (2010: HK$40,189,000).

For the year ended 31 December 2011, the bank loans were secured by the Group's property, plant and equipment (note 16) and pledged bank deposits (note 33).

For the year ended 2010, the bank loans were secured by the Group's pledged bank deposits (note 33).

39. 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 22.

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	5,552
Interest payable	(1,647)
At 31 December 2010	49,315
Interest charged *(Note 10)*	6,591
Interest payable	(1,800)
At 31 December 2011	**54,106**

39. 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 2010, 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	14,357
Conversion during the year	(15,859)
At 31 December 2010	179,786
Interest charged *(Note 10)*	20,453
Conversion during the year	(60,044)
At 31 December 2011	**140,195**

39. CONVERTIBLE BONDS (Continued)

(b) (Continued)

During the year ended 31 December 2011, the holders of CB2 have exercised the conversion right to convert an aggregate principal amount of HK$76,200,000 of the convertible bonds into a total 2,540,000,000 ordinary shares in eleven conversions. The principal amount outstanding after the conversion was HK$166,200,000.

During the year ended 31 December 2010, 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.

40. 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.

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	5,896
Interest payable	(2,745)
At 31 December 2010	51,377
Interest charged *(Note 10)*	6,866
Interest payable	(3,000)
At 31 December 2011	**55,243**

41. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Share capital	
	2011	2010	**2011**	2010
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
At beginning of year	**15,000,000**	10,000,000	**150,000**	100,000
Increase on 11 May 2010 *(Note (a))*	**–**	5,000,000	**–**	50,000
At end of year	**15,000,000**	15,000,000	**150,000**	150,000
Issued and fully paid:				
At beginning of year	**2,544,198**	1,805,198	**25,442**	18,052
Issue of shares upon exercise of share options *(Note (b))*	**–**	19,000	**–**	190
Issue of shares upon conversion of convertible bonds *(Note (c))*	**2,540,000**	720,000	**25,400**	7,200
At end of year	**5,084,198**	2,544,198	**50,842**	25,442

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.

Note (b): 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.

Note (c): During the year ended 31 December 2011, the holders of CB2 have exercised the conversion right to convert an aggregate principal amount of HK$76,200,000 of the convertible bonds into a total 2,540,000,000 ordinary shares in eleven conversions.

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.

42. 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	Allowance for doubtful debts	Revaluation of property, plant and equipment, sea use right and prepaid lease payments	Revaluation of available-for-sale investments	Tax losses recognised	Withholding tax on undistributed profits of subsidiaries in PRC	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	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)
Arising on acquisition of a subsidiary	–	–	25,545	–	–	–	–	25,545
(Credit) charge to consolidated income statement for the year	(349)	(310)	495	–	361	2,415	–	2,612
Exchange realignment	–	–	(442)	–	–	–	–	(442)
At 31 December 2011	**–**	**(310)**	**25,598**	**–**	**–**	**2,415**	**–**	**27,703**

Under the EIT Law of PRC, withholding tax imposed on dividend declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

As at 31 December 2011, the Group had unused tax losses of approximately HK$278,362,000 (2010: HK$105,217,000) available for offset against future profits. No deferred tax assets is recognised due to the unpredictability of future profit stream. The unused tax losses may be carried forward indefinitely.

42. DEFERRED TAXATION (Continued)

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:

	31 December 2011	31 December 2010	1 January 2010
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax liabilities (assets)	**27,703**	(12)	3,704
Deferred tax assets associated with assets classified as held for sale *(Note 34)*	**–**	–	(406)
	27,703	(12)	3,298

43. 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.

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.

43. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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.

The following table discloses movements of the Company's share options granted during the year ended 31 December 2011:

				Number of share options				
Name of participant	Date of grant	Exercisable period	Exercisable price HK$	Outstanding at 1/1/2011	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2011
Directors								
Yeung Sau Han, Agnes	27.5.2010	27.5.2010 to 26.5.2015	0.64	175,000,000	–	–	–	175,000,000
Cheng Kwok Woo	27.5.2010	27.5.2010 to 26.5.2015	0.64	1,500,000	–	–	–	1,500,000
Employee (2010: director)								
Cheng Kwong Cheong (Resigned as director on 30 June 2011)	27.5.2010	27.5.2010 to 26.5.2015	0.64	1,500,000	–	–	–	1,500,000
				178,000,000	–	–	–	178,000,000
Weighted average exercise price				HK$0.64	–	–	–	HK$0.64

In respect of the share options exercised during the year ended 31 December 2010, the weighted average share price at the date of exercise was HK$0.74.

The number of share options exercisable at 31 December 2011 was 178,000,000 shares (2010: 178,000,000 shares).

43. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

Name of participant	Date of grant	Exercisable period	Exercisable price HK$	Number of share options: 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				HK$0.81	HK$0.64	HK$0.16	HK$1.198	HK$0.64

No share-based payment expense was recognised during the year ended 31 December 2011. 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.

43. 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.

44. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2011

In October 2010, the Group entered into a conditional sale and purchase agreement to acquire the entire issued share capital of Upmove at a consideration of approximately RMB343 million (approximately HK$413 million). Upon the completion of the acquisition of Upmove, the Group indirectly own 50% of the equity interests in Rizhao Lanshan. Rizhao Lanshan is a sino-foreign joint venture company established in Mainland China and engaged in provision of terminal and logistics 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, Shandong province of the PRC. Details of the acquisition are disclosed in the Company's circular date 27 January 2011. The acquisition was completed on 28 April 2011.

44. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2011 (Continued)

The fair value of net assets and liabilities acquired in the transactions are as follows:

	Fair value
	HK$'000
Property, plant and equipment	363,317
Sea use right	110,354
Prepaid lease payments	18,900
Trade and bill receivables, deposits and prepayments	106,452
Banks balances an cash	182,511
Trade payables and accruals	(131,991)
Taxation payable	(883)
Bank and other loans	(100,980)
Port construction fee refund	(148,541)
Deferred tax liabilities	(25,545)
Net assets	373,594
Cash consideration paid	413,543
Goodwill arising on acquisition	39,949

Goodwill arising on acquisition of Upmove is carried at cost and is presented separately in the consolidated statement of financial position. The goodwill is attributable to the industry expertise as well as sustainable and profitable business model of the acquired business.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The receivable acquired (which principally comprised of trade receivables) with a fair value of HK$104,007,000 had gross contractual amounts of HK$104,007,000. No estimated uncollectible contractual cash flows were expected at acquisition date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

44. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2011 (Continued)

Net cash outflow arising on acquisition:

	HK$'000
Consideration paid in cash	413,543
Less: cash and cash equivalent balances acquired	(182,511)
	231,032

Acquisition-related costs amounting to HK$4,742,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year.

Included in the loss for the year ended attributable to the owners of the Group is profit of HK$48,308,000 attributable to Upmove. Revenue of the Group for the year ended 31 December 2011 included HK$140,984,000 contributed by Upmove.

Had the acquisition of Upmove been effected on 1 January 2011, the revenue of the Group for the year ended 31 December 2011 would have been HK338,361,000, and loss for the year would have been HK$362,803,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Upmove been acquired at the beginning of the current year, the directors have:

– calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

– determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

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.

45. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2010

As detailed in Note 34, on 25 November 2009, the Group had entered into the 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
Trade and bills receivables, deposits and prepayments	8,989
Bank balances and cash	1,615
Current liabilities	
Trade payables 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

45. 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

46. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately HK$497,000 (2010: HK$39,000). The rental yield for the year ended 31 December 2011 is 10% (2010: 1%).

At 31 December 2011, the Group had contracted with tenants for future minimum lease payments of approximately HK$1,437,000 (2010: HK$78,000) 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:

	2011 ***HK$'000***	2010 *HK$'000* (Restated)
Within one year	**947**	2,092
In the second to fifth year inclusive	**2,123**	4,033
After five years	**11,888**	11,172
	14,958	17,297

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

47. CAPITAL COMMITMENTS

	2011 HK$'000	2010 HK$'000
Contracted for but not provided:		
Acquisition of a subsidiary	–	401,074
Capital injection in a jointly controlled entity	100,000	–
Acquisition of property, plant and equipment	213,292	–
	313,292	401,074

48. 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$458,000 (2010: HK$481,000).

49. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with its associates, jointly controlled entities, partner of jointly controlled entities during the year:

	2011	2010
	HK$'000	*HK$'000*
Jointly controlled entity		
Sales on polishing materials	**1,370**	3,253
Purchase on polishing materials	**88**	319
Partners of jointly controlled entity		
Service charges paid	**18,958**	–
Leasing income	**1,014**	–
Construction fee paid	**82,936**	–
Related company in which a director have beneficial interest		
Subcontracting fee paid	**9,454**	–

In addition, the Group has entered into a joint venture arrangement as the joint venture partner during the year. The Group's share of revenues and expenses has been proportionately accounted for in the consolidated financial statements for the year ended 31 December 2011.

(b) Other than those disclosed elsewhere in the consolidated financial statements, the outstanding balance with related entity at year end are as follows:

	2011	2010
	HK$'000	*HK$'000*
Associate		
Interest income receivable on advance	**409**	1,348
Return on funds and charge over assets granted	**1,500**	1,500

(c) During the year ended 31 December 2011, 日照港(集團)嵐山港務有限公司, a partner of jointly controlled entity of the Group, provided a guarantee towards the banking facilities of the Group for null consideration. The Group provided a maximum guarantee of HKD151,040,000 towards the banking facilities of 日照港(集團)嵐山港務有限公司 for null consideration during the year.

(d) 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.

50. MAJOR NON-CASH TRANSACTIONS

During the year, the Group had received interest income from loan receivables of approximately HK$4,559,000 (2010: HK$5,848,000) and of which approximately HK$671,000 (2010: 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 2011, the Group had received a return on funds and charge over assets granted to an associate amounting to approximately HK$1,500,000 (2010: HK$1,500,000) 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 49, the Group has interest receivable of approximately HK$409,000 (2010: HK$1,348,000) from an associate and was included in the amount due from an associate (Note 29) as at 31 December 2011.

51. EVENTS AFTER THE REPORTING PERIOD

On 30 December 2011, the Group entered into the agreement with Rizhao Port Company Limited ("Rizhao Port"), pursuant to which each of Upmove and Rizhao Port has agreed to make the capital increase in an amount of RMB80 million each to Rizhao Lanshan to increase Rizhao Lanshan's registered capital from RMB140 million to RMB300 million. The amounts of the capital increase will be used for the construction of two new 70,000-tonne berths of Rizhao Lanshan. The two new berths are expected to be ready for operation before the end of the year 2012. The capital increase of Rizhao Lanshan has been completed in January 2012.

At 22 February 2012, the Group has converted total 40,000,000 CB1 into ordinary shares of China Fortune at the conversion price of HK$0.10 each with total principal amount of HK$4,000,000. The shareholding has been increased by approximately 1.28% and resulted in holding approximately 9.86% equity interest in China Fortune after the conversion.

On 28 February 2012, the Group entered into the placing agreement with a placing agent, it is agreed that the placing agent would place a minimum of 5,000,000 and maximum of 15,000,000 ordinary shares of HK$0.1 each of China Railway (the "Placing"). The shareholding of China Railway by the Group decreased to 9.96% after the Placing.

In March 2012, the Group disposed of the available for sale investment in consideration of approximately HK$40.8 million and total loss on disposal of available for sale investment is approximately HK$1.7 million.

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2011 and 2010 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 2011	2010	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
Able Winner International Limited	Hong Kong	Ordinary shares HK$1	**100%**	100%	Investment holding
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
Upmove	Hong Kong	Ordinary share HK$1	**100%**	–	Investment holding

52. 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 2011 and 2010 or at any time during the year.

Financial Summary

RESULTS

	Year ended 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
				(Restated)	
Revenue	258,884	211,256	176,709	205,508	**266,890**
Profit/(loss) before taxation	(29,296)	(268,920)	189,036	(88,919)	**(420,477)**
Taxation	556	528	(29,985)	(4,591)	**(12,112)**
Profit/(loss) for the year	(28,740)	(268,392)	159,051	(93,510)	**(432,589)**
Profit/(loss) for the year attributable to:					
– Owners of the Company	(28,796)	(268,371)	158,359	(93,655)	**(432,451)**
– Non-controlling interests	56	(21)	692	145	**(138)**
	(28,740)	(268,392)	159,051	(93,510)	**(432,589)**

ASSETS AND LIABILITIES

	As at 31 December				
	2007	2008	2009	2010	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
				(Restated)	
Total assets	916,931	721,663	892,277	1,232,511	**1,260,968**
Total liabilities	(41,069)	(90,432)	(68,310)	(352,028)	**(741,704)**
	875,862	631,231	823,967	880,483	**519,264**
Equity attributable to owners of the Company	875,551	630,955	822,999	879,370	**518,289**
Non-controlling interests	311	276	968	1,113	**975**
	875,862	631,231	823,967	880,483	**519,264**