ANNUAL REPORT 2012

PME GROUP LIMITED

必美宜集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 00379

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Wong Lik Ping *(Chairman)*
Ms. Yeung Sau Han Agnes *(Chief Executive Officer)*
Ms. Chan Shui Sheung Ivy
Mr. Lai Ka Fai
Mr. Wang Liang
Mr. Shi Chong

NON-EXECUTIVE DIRECTOR

Mr. Cheng Kwok Woo

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

JOINT COMPANY SECRETARIES

Mr. Li Chak Hung
Mr. Lai Ka Fai

AUTHORISED REPRESENTATIVES

Mr. Wong Lik Ping
Ms. Yeung Sau Han Agnes

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Leung Yuen Wing *(Chairman)*
Mr. Wong Lik Ping
Mr. Lam Kwok Hing Wilfred
Mr. Goh Choo Hwee
Mr. Ho Hin Yip

NOMINATION COMMITTEE

Mr. Wong Lik Ping *(Chairman)*
Mr. Leung Yuen Wing
Mr. Lam Kwok Hing Wilfred
Mr. Goh Choo Hwee
Mr. Ho Hin Yip

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
P.O. 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 2012 annual report.

RESULTS FOR THE YEAR

For the year 2012, the Group recorded turnover of approximately HK$406.3 million and net loss attributable to shareholders amounted to approximately HK$2.4 million. The Directors do not recommend payment of final dividend for the year ended 31 December 2012.

REVIEW FOR THE YEAR

The Group's turnover and revenue for the year ended 31 December 2012 increased by 52.2% to HK$406.3 million and 43.3% to HK$380.7 million respectively as compared with last year. The increase in turnover and revenue was mainly due to increase in revenue from terminal and logistics services division during the year. Segmental revenue of polishing materials and equipment division decreased by 23.4% as compared with last year and there was no segmental revenue of investment division.

Loss for the year ended 31 December 2012 attributable to the shareholders of the Company was approximately HK$2.4 million (2011: HK$432.5 million). The Group recorded a substantial improvement in the annual results for the year ended 31 December 2012 as compared with last year mainly due to increase in revenue, decreases in impairment on interest in associates, impairment on available-for-sale investments and impairment on amount due from an associate, decreases in fair value loss of convertible bonds designated as financial assets at fair value through profit or loss and held for trading investments, and decrease in share of losses of associates.

Segmental loss of the polishing materials and equipment division increased from approximately HK$14.9 million in 2011 to HK$23.9 million in 2012, which was mainly due to decrease in sales of polishing materials and equipment and allowance for obsolete inventories. The gross profit margin of polishing materials and equipment division decreased as compared with last year due to keen competition and slow-down in exports of the PRC during the year.

The investment division recorded a segmental loss of approximately HK$26.5 million which was mainly due to loss on disposal and partial disposal of associates. The segmental loss in 2011 was approximately HK$421.6 million.

The Group holds 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 services division recorded a segmental profit of approximately HK$109.6 million (2011: HK$60.4 million) for the year ended 31 December 2012.

On 30 December 2011 and 27 June 2012, Upmove entered into two agreements with Rizhao Port Company Limited ("Rizhao Port") pursuant to which each of Upmove and Rizhao Port has agreed to make the capital injection in an amount of RMB95.0 million each to Rizhao Lanshan to increase registered capital of Rizhao Lanshan from RMB140.0 million to RMB330.0 million. The amounts of the capital increase were used for the construction of two new 70,000-tonne berths of Rizhao Lanshan. The two new berths have commenced operation in October 2012.

Chairman's Statement

OUTLOOK

The U.S. economy showed signs of slow recovery, the European debt crisis kept deteriorating and the emerging markets have not completely weathered the negative impact. In order to respond to the new round of quantitative easing initiated by the developed countries, countries in emerging markets sought to acquire ability to attain stable and constant economic growth through transition in economic growth mode and adjustment to economic structure. In view of the global economic situation, in 2013, the Group will continue to adjust operation strategies in accordance with the situation, review and restructure its investment portfolio, and concentrate on capital contribution to businesses with stable profitability and good prospects, so as to improve its financial performance and increase its development sustainability.

As demand from traditional overseas market decreases, it is expected that exports of consumer goods in the PRC is unlikely to bottom out from the negative impact, and that growth in demand from domestic market is insufficient to mitigate the shrinking in demand. The management estimates that decline in demand for the Group's polishing products is unlikely to change, so we will continue to enforce our cost saving measures and concentrate our investment on research, development, production and sale of products with high profit margin in 2013, to improve profit from this segment.

Operations of the terminal and port are under sound condition. The newly expanded 70,000-tonne berths have commenced production and have contributed additional income and profits to the Group and will continue to do so in future. In order to respond to the intensifying competition from other terminal and logistics services in peripheral regions of Rizhao, Shandong Province of the PRC, and to maintain our traditional position and customer strength, in 2013, we will continue to perfect construction of terminal facilities and equipment, improve quality of port services, and timely and appropriately expand ports and terminals according to market situation, with a view to ensuring stable growth in profit of the segment.

The Board and the Group's management will continue to use their best endeavour 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.

Wong Lik Ping
Chairman

Hong Kong, 28 March 2013

Management Discussion and Analysis

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

The Group's turnover and revenue for the year ended 31 December 2012 increased by 52.2% to HK$406.3 million and 43.3% to HK$380.7 million respectively as compared with last year. The increase in turnover and revenue was mainly due to increase in revenue from terminal and logistics services division during the year.

Segmental revenue of polishing materials and equipment division decreased by 23.4% from HK$124.7 million in 2011 to HK$95.5 million in 2012. Segmental revenue of terminal and logistics services division increased by 102.2% from HK$141.0 million in 2011 to HK$285.1 million in 2012. As the acquisition of the terminal and logistics services operations completed in April 2011, the division only contributed eight-month segmental revenue to the Group's results for the year ended 31 December 2011. There was no segmental revenue of investment division in both 2011 and 2012.

Loss for the year ended 31 December 2012 attributable to the shareholders of the Company was approximately HK$2.4 million (2011: HK$432.5 million). The Group recorded a substantial improvement in the annual results for the year ended 31 December 2012 as compared with last year mainly due to increase in revenue, decreases in impairment on interest in associates, impairment on available-for-sale investments and impairment on amount due from an associate, decreases in fair value loss of convertible bonds designated as financial assets at fair value through profit or loss and held for trading investments, and decrease in share of losses of associates.

Segmental loss of the polishing materials and equipment division increased from approximately HK$14.9 million in 2011 to HK$23.9 million in 2012, which was mainly due to decrease in sales of polishing materials and equipment and allowance for obsolete inventories. The gross profit margin of polishing materials and equipment division decreased as compared with last year due to keen competition and slow-down in exports of the PRC during the year.

The Group holds 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 services division recorded a segmental profit of approximately HK$109.6 million (2011: HK$60.4 million) for the year ended 31 December 2012.

On 30 December 2011 and 27 June 2012, Upmove entered into two agreements with Rizhao Port pursuant to which each of Upmove and Rizhao Port has agreed to make the capital injection in an amount of RMB95.0 million each to Rizhao Lanshan to increase registered capital of Rizhao Lanshan from RMB140.0 million to RMB330.0 million. The amounts of the capital increase were used for the construction of two new 70,000-tonne berths of Rizhao Lanshan. The two new berths have commenced operation in October 2012.

The investment division recorded a segmental loss of approximately HK$26.5 million which was mainly due to loss on disposal and partial disposal of associates. The segmental loss in 2011 was approximately HK$421.6 million.

The summarised financial information of the Group's jointly controlled entities is set out in note 26 to the consolidated financial statements.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2012, the Group had interest-bearing bank and other loans of approximately HK$116.1 million (31 December 2011: HK$102.5 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 2012, current assets of the Group amounted to approximately HK$336.3 million (31 December 2011: HK$427.2 million). The Group's current ratio was approximately 0.80 as at 31 December 2012 as compared with 1.42 as at 31 December 2011. At 31 December 2012, the Group had total assets of approximately HK$1,272.4 million (31 December 2011: HK$1,261.0 million) and total liabilities of approximately HK$625.3 million (31 December 2011: HK$741.7 million), representing a gearing ratio (measured as total liabilities to total assets) of 49.1% as at 31 December 2012 as compared with 58.8% as at 31 December 2011.

CHARGE OF ASSETS

At 31 December 2012, the Group's property, plant and equipment with carrying value of HK$25.3 million and the listed securities held under the margin accounts, with a total market value of approximately HK$3.2 million have been pledged to banks and financial institutions to secure the credit facilities granted to the Group.

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.

SIGNIFICANT INVESTMENTS

At 31 December 2012, the Group held available-for-sale investments, interests in associates and held for trading investments amounting to approximately HK$2.5 million, HK$76.8 million and HK$3.2 million respectively. During the year, the Group recorded loss on partial disposal of an associate amounting to approximately HK$12.7 million, loss on disposal of an associate amounting to approximately HK$10.9 million, change in fair value of convertible bonds designated as financial assets at fair value through profit or loss amounting to approximately HK$7.4 million and gain on disposals of held for trading investments amounting to approximately HK$9.5 million.

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.

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 2012 and 2011.

CAPITAL COMMITMENTS

At 31 December 2012 and 2011, the Group had capital commitments as follows:

	2012	2011
	HK$'000	*HK$'000*
Contracted for but not provided:		
Capital injection in a jointly controlled entity	–	100,000
The Group's share of the capital commitments of its jointly controlled entity are as follows:		
Contracted for but not provided:		
Acquisition of property, plant and equipment	**7,051**	86,100
Authorised but not contracted for:		
Acquisition of property, plant and equipment	**52,021**	127,192
	59,072	213,292

OUTLOOK

The Group expected more challenges and complication in the global economy in the year 2013. There will be more unstableness and uncertainty in the recovery of the economy. The global economy is still under structural adjustments, as the recovery of the developed economies continues to be uncertain and the growth rate of the emerging economies remains slow. The continuous deterioration of European debt crisis led to the lack of development momentum and drop of market confidence in the developed countries, the global economy will probably retain a downturn in a long period. Although the growth of China's economy has stabilized, rapid rebound remains unlikely.

Despites the uncertainties, the Group will be proactive in face of challenges. We will continue to realign our business structure, further enhance port functions and broaden our scope of services. By leveraging on the advantages on geographical location and deep water condition, the Group will strengthen marketing activities and co-operation with customers, extend its service scope along the logistics chain and attract customers through working out integrated logistics solutions for customers and building up trade platform for iron ore. The Group will speed up the construction of infrastructure including storage and stacking yards so as to upgrade its hardware and port handling capacity.

Management Discussion and Analysis

The management is cautious of the outlook of the polishing products 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 Group will also keep on evaluating and restructuring its investment portfolio and strategies in order to improve the performance of the investment segment.

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

EMPLOYEES AND REMUNERATION

As at 31 December 2012, the Group had approximately 30 (2011: 30) employees (excluding employees of the Company's jointly controlled entities) 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 Corporate Governance Code and Corporate Governance Report (the "CG Code and Report") 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 2012, except for the following deviations:

1. **Code Provision A.6.7**

   Mr. Lam Kwok Hing Wilfred and Mr. Goh Choo Hwee, being independent non-executive Directors of the Company, were not able to attend the annual general meeting of the Company held on 5 June 2012 due to their other important commitments.

2. **Code Provision B.1.2**

   The terms of reference of the Remuneration Committee exclude review of and making recommendations to the Board in relation to senior management remuneration as in the Board's opinion, it was more appropriate for the executive Directors to perform these duties.

THE BOARD OF DIRECTORS

The Board currently comprises six Executive Directors, one Non-Executive Director ("NED") and four 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 17 to 19. The Board has established three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee. Attendance of the Board Meetings, the meetings of the Board Committees and the Annual General Meeting for the year ended 31 December 2012 is given below. The respective responsibilities of the Board and Board Committees are discussed later in this report.

Corporate Governance Report

	No. of meetings attended / eligible to attend				
	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Annual General Meeting
Executive Directors					
Wong Lik Ping (appointed on 9 August 2012)	2/4		0/0	1/1	0/0
Yeung Sau Han Agnes	11/11				1/1
Chan Shui Sheung Ivy	11/11				1/1
Lai Ka Fai (appointed on 18 January 2012)	11/11				1/1
Wang Liang (appointed on 4 December 2012)	0/1				0/0
Shi Chong (appointed on 4 December 2012)	1/1				0/0
Non-Executive Director					
Cheng Kwok Woo (re-designated from Executive Director on 9 August 2012)	9/11		1/1	0/0	1/1
Independent Non-Executive Directors					
Leung Yuen Wing	11/11	2/2	1/1	1/1	1/1
Lam Kwok Hing Wilfred	10/11	2/2	1/1	1/1	0/1
Goh Choo Hwee (appointed on 18 January 2012)	10/11	2/2	1/1	1/1	0/1
Ho Hin Yip (appointed on 21 December 2012)	0/0	0/0	0/0	0/0	0/0
Chow Fu Kit Edward (resigned on 31 January 2012)	0/0	0/0	0/0	0/0	0/0

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.

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.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Details of the Chairman, Mr. Wong Lik Ping, 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 one NED and four INEDs, two of the INEDs hold appropriate professional qualifications, or accounting or related financial management expertise under Rule 3.10 of the Listing Rules. All NED and INEDs of the Company have been appointed for a specific term and are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association.

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

DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution into the Board remains informed and relevant.

The Directors are committed to complying with the code provision A.6.5 which has come into effect from 1 April 2012 on Directors' training. All Directors have participated in continuous professional development activities by reading regulatory updates, and/or attending seminars/workshops relevant to the business/ Directors' duties.

Corporate Governance Report

A record of training they received for the year ended 31 December 2012 was provided to the Company. The individual training record of each Director received for the year ended 31 December 2012 is set out below:

	Reading regulatory updates	Attending seminars/ workshops relevant to the business/ directors' duties
Executive Directors		
Wong Lik Ping (appointed on 9 August 2012)	✓	✓
Yeung Sau Han Agnes	✓	
Chan Shui Sheung Ivy	✓	✓
Lai Ka Fai (appointed on 18 January 2012)	✓	✓
Wang Liang (appointed on 4 December 2012)	✓	✓
Shi Chong (appointed on 4 December 2012)	✓	✓
Non-Executive Director		
Cheng Kwok Woo (re-designated from Executive Director on 9 August 2012)	✓	
Independent Non-Executive Directors		
Leung Yuen Wing	✓	✓
Lam Kwok Hing Wilfred	✓	✓
Goh Choo Hwee (appointed on 18 January 2012)	✓	✓
Ho Hin Yip (appointed on 21 December 2012)	✓	✓

DELEGATION BY THE BOARD

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.

When the Board delegates aspect of its management and administration functions to management, clear directions would be given as to the power of management, in particular, the circumstances where management should report back to the Board before making decision or entering into any commitments on behalf of the Group.

Principal functions that are specifically delegated by the Board to the management include (i) implementation of corporate strategy and policy initiatives; (ii) provision of management reports to the Board in respect of Group's performance, financial position and prospects; and (iii) day-to-day management of the Group.

Corporate Governance Report

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. For the year ended 31 December 2012, the Remuneration Committee comprises the Board's Chairman (Mr. Cheng Kwok Woo before 9 August 2012 and Mr. Wong Lik Ping on or after 9 August 2012) and four INEDs, namely Mr. Leung Yuen Wing, Mr. Lam Kwok Hing Wilfred, Mr. Goh Choo Hwee and Mr. Ho Hin Yip. 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. 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 and Report.

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 2012, the Nomination Committee comprises the Board's Chairman (Mr. Cheng Kwok Woo before 9 August 2012 and Mr. Wong Lik Ping on or after 9 August 2012) and four INEDs, namely Mr. Leung Yuen Wing, Mr. Lam Kwok Hing Wilfred, Mr. Goh Choo Hwee and Mr. Ho Hin Yip. The Nomination Committee is chaired by the Board's Chairman (Mr. Cheng Kwok Woo before 9 August 2012 and Mr. Wong Lik Ping on or after 9 August 2012).

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 and Report.

AUDIT COMMITTEE

For the year ended 31 December 2012, the Audit Committee comprises four INEDs, namely Mr. Leung Yuen Wing, Mr. Lam Kwok Hing Wilfred, Mr. Goh Choo Hwee and Mr. Ho Hin Yip. The Audit Committee is chaired by Mr. Leung Yuen Wing.

The principal duties of the Audit Committee are to review and provide supervision over the financial reporting process and internal controls of the Group. During the year, two Audit Committee meetings were held to review the financial reporting matters and internal control procedures 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 and Report.

Corporate Governance Report

CORPORATE GOVERNANCE FUNCTIONS

During the year under review, the Board approved the revised terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee, the shareholders' communication policy, procedures for election of a director and revised corporate governance practices code of the Company. The Board also approved that the corporate governance duties were delegated to the Audit Committee.

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 2012.

To comply with the code provision A.6.4 of the CG Code and Report, the Company has also adopted the Model Code as the code of conduct for securities transactions by Relevant Employees to regulate the dealings in the securities of the Company by certain employees of the Group who are considered to be likely in possession of unpublished price sensitive information of the Company.

ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibility for preparing the financial statements of the Group. As at 31 December 2012, 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 and Report.

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, 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 for the year amounted to HK$1,050,000 and no non-audit service was provided.

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 27 and 28.

Corporate Governance Report

COMPANY SECRETARIES

Mr. Li Chak Hung and Mr. Lai Ka Fai are the joint company secretaries of the Company. Both of Mr. Li and Mr. Lai report to Mr. Wong Lik Ping, the Chairman of the Board.

Mr. Li Chak Hung was appointed as company secretary of the Company on 13 March 2002. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Since he was appointed between 1 January 2000 and 31 December 2004, he is not required to comply with Rule 3.29 of the Listing Rules in relation to professional training until the financial year commencing on 1 January 2013.

Mr. Lai Ka Fai was appointed as joint company secretary of the Company on 22 June 2010. He was then appointed as an executive director of the Company on 18 January 2012. He is a solicitor of the High Court of the Hong Kong Special Administrative Region. He undertook no less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by Shareholders

Pursuant to Article 58 of the Company's Articles of Association, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the company secretary at the Company's office in Hong Kong at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

As regards proposing a person for election as a Director, please refer to the procedures available on the websites of the Company and the Stock Exchange.

Making Enquiry to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at 5th Floor, Unison Industrial Centre, Nos. 27-31 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.

Corporate Governance Report

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a range of communication channels between itself, its shareholders and investors, including answering questions through the annual general meeting, the publications of annual and interim reports, notices, announcements and circulars on the website of the Company. During the year, the Board is not aware of any significant changes in the Company's constitutional documents.

On behalf of the Board
Wong Lik Ping
Chairman

Hong Kong, 28 March 2013

Directors' and Senior Management's Profiles

DIRECTORS

Executive Directors

Mr. Wong Lik Ping, aged 52, is the Chairman of the Group. He joined the Group in August 2012 and is responsible for strategic planning, business development and Board issues of the Group. He was appointed as (i) an executive director and a vice-chairman of Shougang Fushan Resources Group Limited (stock code: 639) and (ii) an executive director and chairman of Theme International Holdings Limited (stock code: 990), both companies listed on the Main Board of the Stock Exchange. Mr. Wong is a member of the National Committee of the Chinese People's Political Consultative Conference. He has extensive experience in trading business, financial industry and investments in a wide range of businesses in China. Mr. Wong is also a director of a jointly controlled entity of the Company in the PRC. Mr. Wong Lik Ping is the father of Mr. Wang Liang.

Ms. Yeung Sau Han Agnes, aged 47, 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), a company listed on the Growth Enterprise Market of the Stock Exchange.

Ms. Chan Shui Sheung Ivy, aged 48, 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), a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Lai Ka Fai, aged 44, joined the Group in June 2010 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 currently the joint company secretary of the Company.

Mr. Wang Liang, aged 28, joined the Group in December 2012 and is responsible for the project appraisal, capital market financing and business marketing of the Group. He holds a Bachelor degree in Physics from Imperial College London. He has extensive experience in the international finance and project management. He had been working in international investment banks and responsible for clients' project management, projects merger and acquisition and various initial public offerings. Mr. Wang Liang is the son of Mr. Wong Lik Ping.

Directors' and Senior Management's Profiles

Mr. Shi Chong, aged 39, joined the Group in March 2011 and is responsible for the management and development of businesses in the PRC of the Group. He holds a graduate Certificate in Telecommunication from The Beijing Institute of Technology and a Bachelor degree in Laws from The Peking University. He has over 10 years of experience in the IT/EE development, International Technology trading and Project management. He had been working in multinational corporations as Tech-sale manager, Senior Customer Project manager and to assist the chairman and managing director in group management and strategic planning. He currently is a business development manager of the wholly-owned subsidiary of the Company.

Non-Executive Director

Mr. Cheng Kwok Woo, aged 56, joined the Group in 1990 and acted as Chairman and an executive director of the Group since 2002 and was re-designated to a non-executive director since 9 August 2012. 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.

Independent Non-executive Directors

Mr. Leung Yuen Wing, aged 46, 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. He was appointed as an independent non-executive director of Loudong General Nice Resources (China) Holdings Limited (stock code: 988), a company listed on the Main Board of the Stock Exchange, on 1 November 2012.

Mr. Lam Kwok Hing Wilfred, aged 54, 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.

Directors' and Senior Management's Profiles

Being an active member in social and charity activities, Mr. Lam is a Support Force Commander of the Civil Aid Service, Official 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 42, 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 Ma Tang & Co, Solicitors, a 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. He was appointed as an independent non-executive director of Tsui Wah Holdings Limited (stock code: 1314), a company listed on the Main Board of the Stock Exchange, on 5 November 2012.

Mr. Ho Hin Yip, aged 39, was appointed as an independent non-executive director in December 2012. He is presently the Financial Controller and Joint Company Secretary of Singapore-listed Dukang Distillers Holdings Limited, where he is responsible for the finance and accounting functions, statutory compliance and corporate governance affairs. He has more than 15 years of financial and auditing experience. He is a fellow member of The Association of Chartered Certified Accountants and a practising member of the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. Cheng Kwong Cheong, aged 52, 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 54, is the financial controller of the Group's polishing materials division. She joined the Group in 1990 and is responsible for the financial management of the Group's polishing materials division. 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.

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 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

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

SEGMENT INFORMATION

An analysis of the Group's turnover, revenue and segment information for the year ended 31 December 2012 is set out in note 8 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 29 and 30 of this annual report.

The directors do not recommend payment of final dividend for the year ended 31 December 2012.

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 132 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 consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year together with the reasons are set out in note 39 to the consolidated 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 2012, in the opinion of the directors, the Company's share premium and reserves available for distribution to shareholders amounted to HK$896.8 million.

Movement in the share premium and reserves of the Group during the year are set out on page 34 of this annual report.

Report of the Directors

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 41 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers and the largest customer accounted for 49.2 per cent and 29.0 per cent of the Group's total sales respectively for the year.

The aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30 per cent of the Group's total purchases for the year.

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

RELATED PARTY TRANSACTIONS

Related party transactions during the year are disclosed in note 47 to the consolidated financial statements.

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 (a non-executive director of the Company), Mr. Cheng Kwong Cheong and Ms. Cheng Wai Ying (two of whom are directors of certain subsidiaries of the Company).

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 2012, PME International Company Limited, a wholly-owned subsidiary of the Company, paid processing charges of approximately HK$8,014,000 to PME International Investment (South China) Limited, a wholly-owned subsidiary of Billionlink.

Report of the Directors

DIRECTORS

The directors of the Company during the year ended 31 December 2012 and up to the date of this report were:

Executive directors

Mr. Wong Lik Ping *(Chairman)*	(appointed on 9 August 2012)
Ms. Yeung Sau Han Agnes *(Chief Executive Officer)*	
Ms. Chan Shui Sheung Ivy	
Mr. Lai Ka Fai	(appointed on 18 January 2012)
Mr. Wang Liang	(appointed on 4 December 2012)
Mr. Shi Chong	(appointed on 4 December 2012)

Non-executive director

Mr. Cheng Kwok Woo	(re-designated from Executive Director on 9 August 2012)

Independent non-executive directors

Mr. Leung Yuen Wing	
Mr. Lam Kwok Hing Wilfred	
Mr. Goh Choo Hwee	(appointed on 18 January 2012)
Mr. Ho Hin Yip	(appointed on 21 December 2012)
Mr. Chow Fu Kit Edward	(resigned on 31 January 2012)

In accordance with Article 87(1) of the Company's Articles of Association, Ms. Yeung Sau Han Agnes, Mr. Leung Yuen Wing and Mr. Lam Kwok Hing Wilfred 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. Wong Lik Ping, Mr. Wang Liang, Mr. Shi Chong and Mr. Ho Hin Yip 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 17 to 19 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.

Report of the Directors

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

At 31 December 2012, 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. Wong Lik Ping	–	3,660,000,000	3,660,000,000	38.92%
Mr. Cheng Kwok Woo	62,400,000	–	62,400,000	0.66%
Ms. Chan Shui Sheung Ivy	550,000	–	550,000	0.01%
Ms. Yeung Sau Han Agnes	202,250,000	–	202,250,000	2.15%

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 2012 are as follows:

Name of grantee	Exercise price	Exercisable period	As at 1.1.2012	As at 31.12.2012
	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
Other employee	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 2012 were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company to acquire such rights in any other corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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**
Worldkin Development Limited	*1*	3,660,000,000	L	38.92%
Mr. Wong Lik Ping	*2*	3,660,000,000	L	38.92%
Profit Win International Limited		1,200,000,000	L	12.76%
Mr. Chen Hui	*3*	1,200,000,000	L	12.76%
Sino Life Insurance Co., Limited		920,000,000	L	9.78%
Fortune Finance Limited		600,000,000	L	6.38%
Fortune Financial (Holdings) Limited	*4*	600,000,000	L	6.38%
China Fortune Financial Group Limited	*5*	600,000,000	L	6.38%
Mr. Ng Leung Ho		520,000,000	L	5.53%

Notes:

1. The interests represent the convertible bonds issued by the Company at a principal amount of HK$34,200,000 at a conversion price of HK$0.03 per conversion share and 2,520,000,000 shares of the Company.

2. Mr. Wong Lik Ping holds entire equity interests of Worldkin Development Limited and is accordingly deemed to have interests in the shares/underlying shares that Worldkin Development Limited has interests in. Mr. Wong Lik Ping was appointed as chairman and executive director of the Company with effective from 9 August 2012.

3. Mr. Chen Hui holds entire equity interests of Profit Win International Limited and is accordingly deemed to have interests in the shares of the Company that Profit Win International Limited has interests in.

4. Fortune Financial (Holdings) Limited holds entire equity interests of Fortune Finance Limited and is accordingly deemed to have interests in the shares of the Company that Fortune Finance Limited has interests in.

5. China Fortune Financial Group Limited is the ultimate holding company of Fortune Finance Limited as it holds entire equity interests of Fortune Financial (Holdings) Limited. As such, it is deemed to have interests in the shares of the Company that Fortune Finance 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 2012.

Report of the Directors

CORPORATE GOVERNANCE

The Company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 9 to 16 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 reappoint SHINEWING (HK) CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

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

Hong Kong, 28 March 2013

Independent Auditor's Report

信永中和 ShineWing

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

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

We have audited the consolidated financial statements of PME Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 131, which comprise the consolidated statement of financial position as at 31 December 2012, and 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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 about 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 2012 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
Chong Kwok Shing
Practising Certificate Number: P05139

Hong Kong
28 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Turnover	7	**406,288**	266,890
Revenue		**380,661**	265,683
Cost of sales		**(242,292)**	(183,137)
Gross profit		**138,369**	82,546
Other income	9	**7,199**	34,631
Selling and distribution expenses		**(5,675)**	(6,259)
Administrative expenses		**(61,294)**	(63,578)
Change in fair value of investment property	17	**–**	500
Gain on disposal of subsidiaries	43	**6,678**	–
Loss on partial disposal of an associate	22	**(12,742)**	–
Loss on disposal of an associate	22	**(10,898)**	–
Loss on disposal of convertible bonds designated as financial assets at fair value through profit or loss		**–**	(623)
Loss on disposal of available-for-sale investments		**(3,106)**	–
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)
Gain (loss) on disposal of held for trading investments		**9,514**	(474)
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	27	**(7,366)**	(53,732)
Impairment on amount due from an associate	28	**–**	(33,000)
Decrease in fair value of held for trading investments		**(177)**	(74,795)
Return on advances and charge over assets granted to an associate	23	**–**	567
Share of results of associates	22	**(7,114)**	(35,290)
Finance costs	10	**(32,834)**	(39,105)
Profit (loss) before taxation		**20,554**	(420,477)
Taxation	12	**(22,982)**	(12,112)
Loss for the year	13	**(2,428)**	(432,589)
Attributable to:			
Owners of the Company		**(2,426)**	(432,451)
Non-controlling interests		**(2)**	(138)
		(2,428)	(432,589)
Loss per share (expressed in HK cents)			
Basic	15	**(0.04)**	(11.14)
Diluted	15	**(0.04)**	(11.14)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
Loss for the year	**(2,428)**	(432,589)
Other comprehensive income		
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	**11,460**	9,765
Share of other comprehensive income (expenses) of associates	**399**	(324)
Transfer of investment revaluation reserve to profit or loss upon realisation of available-for-sale investments during the year	**33**	–
Transfer of investment revaluation reserve to profit or loss upon disposal of an associate during the year	**(175)**	–
Net fair value loss on available-for-sale investments	**–**	(69,917)
Other comprehensive income for the year (net of tax)	**11,717**	11,326
Total comprehensive income (expenses) for the year	**9,289**	(421,263)
Total comprehensive income (expenses) attributable to:		
Owners of the Company	**9,291**	(421,125)
Non-controlling interests	**(2)**	(138)
	9,289	(421,263)

Consolidated Statement of Financial Position

As at 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	**684,988**	461,521
Investment property	17	**–**	5,200
Prepaid lease payments	18	**18,552**	18,624
Available-for-sale investments	19	**2,500**	41,038
Goodwill	20	**39,949**	39,949
Sea use rights	21	**111,068**	111,452
Interests in associates	22	**76,844**	155,616
Deposits for acquisition of property, plant and equipment		**1,821**	–
Club debentures		**350**	350
		936,072	833,750
Current assets			
Inventories	24	**22,642**	25,509
Trade and bills receivables, other receivables, deposits and prepayments	25	**182,343**	92,721
Convertible bonds designated as financial assets at fair value through profit or loss	27	**–**	45,179
Amounts due from associates	28	**–**	19,791
Loan receivables	29	**–**	21,351
Prepaid lease payments	18	**422**	414
Held for trading investments	30	**3,163**	10,010
Deposits placed with financial institutions	31	**126**	173
Pledged bank deposits	32	**–**	63,046
Bank balances and cash	32	**127,599**	149,024
		336,295	427,218
Current liabilities			
Trade payables and accruals	33	**132,949**	167,564
Amount due to an associate	47	**34,900**	–
Taxation payable		**42,786**	41,599
Obligation under finance leases	34	**18,212**	568
Bank and other loans	35	**20,363**	91,908
Amount due to a fellow subsidiary of a partner of a jointly controlled entity	36	**74,760**	–
Convertible bonds	37	**94,410**	–
		418,380	301,639
Net current (liabilities) assets		**(82,085)**	125,579
Total assets less current liabilities		**853,987**	959,329

Consolidated Statement of Financial Position

As at 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Capital and reserves			
Share capital	39	**94,042**	50,842
Reserves		**552,221**	467,447
Equity attributable to owners of the Company		**646,263**	518,289
Non-controlling interests		**845**	975
Total equity		**647,108**	519,264
Non-current liabilities			
Obligation under finance leases	34	**76,414**	392
Bank and other loans	35	**95,722**	10,633
Port construction fee refund	36	–	151,793
Convertible bonds	37	–	194,301
Promissory note	38	–	55,243
Deferred tax liabilities	40	**34,743**	27,703
		206,879	440,065
		853,987	959,329

The consolidated financial statements on pages 29 to 131 were approved and authorised for issue by the board of directors on 28 March 2013 and are signed on its behalf by:

WONG LIK PING
Director

YEUNG SAU HAN AGNES
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company											
	Share capital	Share premium	Special reserve *(Note a)*	Translation reserve	Share options reserve	Investment revaluation reserve	Other reserves *(Note b)*	Convertible bonds reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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												
Impairment of available-for-sale investments	–	–	–	–	–	71,802	–	–	–	71,802	–	71,802
Exchange differences on translating foreign operations	–	–	–	9,765	–	–	–	–	–	9,765	–	9,765
Share of other comprehensive expenses of associates	–	–	–	–	–	(324)	–	–	–	(324)	–	(324)
Net fair value loss on available-for-sale investments	–	–	–	–	–	(69,917)	–	–	–	(69,917)	–	(69,917)
Total comprehensive income (expenses) for the year	–	–	–	9,765	–	1,561	–	–	(432,451)	(421,125)	(138)	(421,263)
Issue of shares upon conversion of convertible bonds *(Note 37)*	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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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 2012	50,842	956,499	(45,781)	10,559	63,700	273	1,452	64,583	(583,838)	518,289	975	519,264
Loss for the year	–	–	–	–	–	–	–	–	(2,426)	(2,426)	(2)	(2,428)
Other comprehensive income for the year												
Exchange differences on translating foreign operations	–	–	–	11,460	–	–	–	–	–	11,460	–	11,460
Share of other comprehensive expenses of associates	–	–	–	–	–	399	–	–	–	399	–	399
Transfer of investment revaluation reserve to profit or loss upon realisation of available-for-sale investments during the year	–	–	–	–	–	33	–	–	–	33	–	33
Transfer of investment revaluation reserve to profit or loss upon disposal of an associate during the year	–	–	–	–	–	(175)	–	–	–	(175)	–	(175)
Total comprehensive income (expense) for the year	–	–	–	11,460	–	257	–	–	(2,426)	9,291	(2)	9,289
Disposal of subsidiary	–	–	–	–	–	–	–	–	–	–	(128)	(128)
Issue of shares upon conversion of convertible bonds *(Note 37)*	43,200	114,467	–	–	–	–	–	(38,984)	–	118,683	–	118,683
At 31 December 2012	94,042	1,070,966	(45,781)	22,019	63,700	530	1,452	25,599	(586,264)	646,263	845	647,108

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 2012

	2012	2011
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit (loss) before taxation	**20,554**	(420,477)
Adjustments for:		
Amortisation of prepaid lease payments	**414**	274
Amortisation of sea use right	**2,439**	1,310
Change in fair value of convertible bonds designated as financial assets at fair value through profit or loss	**7,366**	53,732
Change in fair value of held for trading investments	**177**	74,795
Depreciation of property, plant and equipment	**20,617**	14,116
Finance costs	**32,834**	39,105
Loss on disposal of available-for-sale investments	**3,106**	–
Gain on disposal of subsidiaries	**(6,678)**	–
Gain on disposal of a club membership	**(840)**	–
Change in fair value of investment property	**–**	(500)
Interest income	**(3,728)**	(6,365)
Impairment loss on trade receivables	**14,530**	7,098
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	**103**	603
Impairment loss on interests in associates	**–**	132,302
Loss on deemed partial disposal of an associate	**–**	20,782
Loss on partial disposal of an associate	**12,742**	–
Loss on disposal of derivative financial assets	**–**	6,979
Loss on disposal of an associate	**10,898**	–
Return on advances and charge over assets granted to an associate	**–**	(567)
Reversal of allowance for inventories	**(749)**	–
Allowance for inventories	**4,956**	246
Reversal of impairment loss on trade/loan receivables	**(59)**	(27,000)
Share of results of associates	**7,114**	35,290
Written off of property, plant and equipment	**3,740**	–
Operating cash flows before movements in working capital	**129,536**	36,525
(Increase) decrease in inventories	**(1,340)**	4,639
(Increase) decrease in trade and bills receivables, other receivables, deposits and prepayments	**(61,823)**	129,809
Decrease in convertible bonds designated as financial assets at fair value through profit or loss	**–**	7,823
Decrease (increase) in held for trading investments	**7,918**	(1,068)
Decrease in deposits placed with financial institutions	**47**	754
Increase in trade payables and accruals	**10,062**	12,037
Cash generated from operations	**84,400**	190,519
Income tax paid	**(15,222)**	(6,044)
NET CASH GENERATE FROM OPERATING ACTIVITIES	**69,178**	184,475

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(136,031)	(86,862)
Deposits paid for acquisition of property, plant and equipments	(1,821)	–
Withdrawal (placing) of pledged bank deposit	63,046	(56,846)
Proceeds on disposal of convertible bonds designated as financial assets at fair value through profit or loss	–	–
Proceeds on disposal of available-for sale investments	35,465	–
Prepayment from loans receivables	15,555	78,629
Proceeds from disposal of associates *(Note 22)*	8,295	–
Net cash inflow from disposal of subsidiaries *(Note 43)*	1,151	–
Interest received	2,018	9,417
Proceed from disposal of a club membership	840	–
Proceed from disposal of property, plant and equipment	433	320
Acquisition of a subsidiary *(Note 42)*	–	(231,032)
Proceed from disposal of derivative financial assets	–	1,800
(Advance to) repayment from associates	(191)	424
Purchases of available-for-sale investments	–	(500)
NET CASH USED IN INVESTING ACTIVITIES	(11,240)	(284,650)
FINANCING ACTIVITIES		
Fund transfer to a fellow subsidiary of a partner of a jointly controlled entity	(77,033)	–
Finance lease charges paid	(3,521)	(55)
Repayments of obligation under a finance lease	(430)	(543)
Interest paid	(10,083)	(9,940)
Repayments of other loans	(8,522)	–
Repayments of bank loans	(135,347)	(6,208)
Bank borrowings raised	155,599	–
Other loans raised	–	373
NET CASH USED IN FINANCING ACTIVITIES	(79,337)	(16,373)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,399)	(116,548)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	149,024	265,898
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(26)	(326)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	127,599	149,024
Cash and cash equivalents at the end of the year, represented by:		
Bank balances and cash	127,599	149,024

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 51.

BASIS OF PREPARATION

The Group reported a loss of approximately HK$2,428,000 for the year ended 31 December 2012. The Group had net current liabilities of approximately HK$82,085,000 as at 31 December 2012. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period given that:

(i) the completion of the placing of an aggregate of 1,000,000,000 new ordinary shares at the subscription price of HK$0.355 per subscription share on 7 February 2013 for a net proceeds of approximately HK$354,900,000; and

(ii) the completion of the conversion of convertible bonds with principal amounts of HK$6,000,000, HK$26,400,000, HK$4,200,000 and HK$59,000,000 into 200,000,000, 880,000,000, 140,000,000 and 295,000,000 ordinary shares of the Company on 9, 10, 14 and 22 January 2013 respectively.

For details of the abovesaid transactions were disclosed in Note 50.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments has not been reflected in the financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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").

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets in the current year. 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 entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment property prior to the transfer to property, plant and equipment using the fair value model. As a result of the application of the amendments to HKAS 12, the directors of the Company reviewed the Group's investment property and concluded that the Group's investment property is not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Therefore, the directors of the Company have determined that the 'sale' presumption set out in the amendments to HKAS 12 is not rebutted.

The application of the amendments to HKAS 12 has no material impact on the Group's deferred tax balances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

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

Amendments to HKFRSs	Annual improvements 2009 – 2011 Cycle[2]
Amendments to HKFRS 1	Government Loans[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial statements, Joint arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
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]
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 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK (International Financial Reporting Interpretation Committee) – Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012.

2 Effective for annual periods beginning on or after 1 January 2013.

3 Effective for annual periods beginning on or after 1 January 2014.

4 Effective for annual periods beginning on or after 1 January 2015.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 1 Presentation of Financial Statements, the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the consolidated and the Company's financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 – Income Taxes. The directors anticipate that the amendments to HKAS 32 will have no effect on the consolidated and the Company's financial statements as the Group and the Company has already adopted this treatment.

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 offset of financial assets and financial liabilities 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 amendments to HKFRS 7 are effective 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.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regards to offsetting financial assets and financial liabilities in the future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

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:

- 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.

- With regard to the measurement of financial liabilities designed as at fair value through profit or loss, HKFRS 9 requires that 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 of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liability designated as 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 the adoption of HKFRS 9 in the future 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 effect until a detailed review has been completed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

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. HK (SIC) – Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. 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 joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKASs 31 can be accounted for using the equity method of accounting or proportionate consolidation.

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

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided all of these five standards are applied at the same time.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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)

The directors anticipate that the application of these five standards may have a significant impact on amounts reported in the consolidated financial statements for the annual period beginning 1 January 2013. The application of HKFRS 11 will change the classification and subsequent accounting of the Group's jointly controlled entities. Under HKAS 31, the Group's jointly controlled entities that include Shanghai PME-XINHUA Polishing Materials Systems ("Shanghai PME-XINHUA") and Rizhao Lanshan Wansheng Harbour Company Limited ("Rizhao Lanshan") have been accounted for using proportionate consolidation method. Under HKFRS 11, Shanghai PME-XINHUA and Rizhao Lanshan will be classified as joint ventures and will be accounted for using the equity method, resulting in the aggregation of the Group's proportionate share of Shanghai PME-XINHUA and Rizhao Lanshan respective net assets and items of profit or loss and other comprehensive income into a single line item which will be presented in the consolidated statement of financial position and in the consolidated income statement as "investment in joint ventures" and "share of profits (loss) of joint ventures' respectively. The summarised financial information in respect of Shanghai PME-XINHUA and Rizhao Lanshan and the potential effects of the application of equity method are disclosed in Note 26.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. 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 items of other comprehensive income to be 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 same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods 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 future accounting periods.

The directors of the Company anticipate that the application of others new and revised HKFRSs, 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 on the historical cost basis except for investment property and financial instruments that 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 goods.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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.

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

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

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

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

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 are recognised and measured in accordance with HKAS 12 Income Taxes.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates 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 associates. When the Group's share of losses of an associate exceeds the Group's 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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 an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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 requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in 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 interests in the associate that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

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

The 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.

The financial statements of jointly controlled entities used for proportionate consolidation accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

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 entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

When a group entity transacts with its jointly controlled entity, profits or losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

Terminal services income arising 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 all 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 economic 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of items of property, plant and equipment less their estimated residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or 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 are classified into one of the three categories, including 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 debt instrument 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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 term; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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, other 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.

Equity and debt securities held by the Group that are classified as AFS and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are 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
- 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, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of 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 loan receivables 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 financial asset is considered 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. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Debt 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.

Other financial liabilities

Other financial liabilities including trade payables and accruals, bank and other loans, convertible bonds, amount due to a fellow subsidiary of a partner of a jointly controlled entity, amount due to an associate, promissory note and obligation under finance leases are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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.

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 an 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 collateralised 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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 with finite useful lives 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. When 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. When 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment.

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, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories 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) using exchange rate prevailing at the end of each reporting period. Income and expenses items 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

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 date of grant 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.

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For the year ended 31 December 2012

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 on-going 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

During the year ended 31 December 2011, the Group acquired a subsidiary with jointly controlled entities operated in terminal and logistics services 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 reportable and operating segment 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 interests in associates

Determining whether interests in associates are impaired requires an estimation of the return and realisation of the interest in the associates in order to calculate the recoverable amounts. Where the estimated returns and proceeds from realisation are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of the interests in associates is approximately HK$76,844,000, net of nil accumulated impairment loss (2011: carrying amount of approximately HK$155,616,000, net of accumulated impairment loss of approximately HK$132,302,000). Impairment assessment had been carried out at the end of the reporting date on the associate in its entirety. In the opinion of the directors, accumulated impairment loss of approximately HK$132,302,000 was recognised as at 31 December 2011 (2012: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 2012, the carrying amount of trade receivables is approximately HK$65,462,000 (net of accumulated impairment loss of approximately HK$19,691,000) (2011: carrying amount of approximately HK$72,411,000, net of accumulated impairment loss of approximately HK$16,834,000). As at 31 December 2012, the carrying amount of loan receivables is nil (2011: carrying amount of approximately HK$21,351,000). As at 31 December 2012, the carrying amount of other receivables is approximately HK$47,005,000 (2011: carrying amount of approximately HK$7,407,000).

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 2012, the carrying amount of inventories is approximately HK$22,642,000, net of accumulated allowance of approximately HK$11,672,000 (2011: carrying amount of approximately: HK$25,509,000, net of accumulated allowance of approximately HK$7,465,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

Key sources of estimation uncertainty (Continued)

Estimated impairment loss on available-for-sale investments

In determining whether there is objective evidence of impairment in relation to the Group's available-for-sale investments in equity securities, the Group takes into consideration 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 2012, the carrying amount of available-for-sales investments is approximately HK$2,500,000 (2011: HK$41,038,000).

For the available-for-sale investment not quoted in an active market, the management use their judgement in selecting an appropriate valuation technique. Valuation techniques commonly used by the market practitioners are applied. The Group's unlisted equity instruments with carrying amount of HK$2,500,000 (2011: HK$2,500,000) 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 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 2012, the carrying amount of goodwill is approximately HK$39,949,000 (net of accumulated impairment loss of approximately HK$148,191,000) (2011: carrying amount of approximately HK$39,949,000, net of accumulated impairment loss of approximately HK$161,008,000). Details of the recoverable amount calculation are disclosed in note 20 and no impairment loss had been recognised during the year ended 31 December 2012.

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

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 2012, the carrying amount of convertible bonds designated as financial assets at fair value through profit or loss were nil (2011: approximately HK$45,179,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Financial assets		
Loans and receivables (including bank balances and cash)	**307,141**	340,462
Available-for-sale investments	**2,500**	41,038
FVTPL		
– Held for trading investments	**3,163**	10,010
– Financial assets designated at fair value through profit or loss	**–**	45,179
	312,804	436,689
Financial liabilities at amortised cost		
Convertible bonds	**94,410**	194,301
Other financial liabilities	**452,473**	325,081
	546,883	519,382

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, held for trading investments, convertible bonds designated as financial assets at fair value through profit or loss, deposits placed with financial institutions, loan receivables, amounts due from associates, pledged bank deposits, bank balances and cash, trade and bills receivables, other receivables, deposits, trade payables, accruals, bank and other loans, obligation under a finance lease, convertible bonds, amount due to a fellow subsidiary of a partner of a jointly controlled entity, amount due to an associate and promissory note. Details of these 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, which are discussed below.

(i) *Market risk*

Currency risk

Several subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 8% (2011: 5%) of the Group's sales and approximately 46% (2011: 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

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

(i) *Market risk* (Continued)

Currency risk (Continued)

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

	2012	2011
	HK$'000	*HK$'000*
Assets		
USD	**989**	996
Japanese Yen	**2,026**	369
Euro	**551**	594
RMB	**7,497**	1,908
	11,063	3,867
Liabilities		
USD	**24**	2,429
Japanese Yen	**3,481**	4,955
Euro	**2,573**	2,681
RMB	**64**	40
	6,142	10,105

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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% (2011: 5%) increase and decrease in HK$ against relevant foreign currencies. 5% (2011: 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% (2011: 5%) change in foreign currency rates. A positive number indicates increase in post-tax profit (2011: a decrease in post-tax loss) for the year when HK$ strengthens 5% (2011: 5%) against the relevant foreign currencies. For a 5% (2011: 5%) weakening of HK$ against the relevant currencies, there would be an equal but opposite impact on the loss for the year.

	2012	2011
	HK$'000	*HK$'000*
Japanese Yen	**73**	229
Euro	**101**	104

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 (2011: 200 basis points) and all other variables were held constant, there was a decrease in post-tax loss by approximately HK$433,000 (2011: HK$2,572,000). If interest rates had decreased by 200 basis points (2011: 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% (2011: 30%) higher/lower:

– post-tax loss for the year ended 31 December 2012 would increase/decrease by approximately HK$949,000 (2011: post-tax loss would decrease/increase by approximately HK$16,557,000) 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$11,561,000 for the year ended 31 December 2011 (2012: HK$ nil) for the Group as a result of the changes in fair value of available-for-sale investments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 2012 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 2012, the Group had certain concentration of credit risk as 6% (2011: 34%) and 16% (2011: 74%) of the total trade and bills receivables were due from the Group's largest and the five largest customers respectively.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 46% (2011: 67%) of the total trade receivables as at 31 December 2012.

As at 31 December 2011, the Group had significant concentration of credit risk arising from amounts due from associates as 85% (2012: nil) 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% (2012: nil) 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 amounts due from 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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, obligation under a finance lease and the issuance of convertible bonds as a significant source of liquidity. Details of the Groups' obligation under finance leases, bank and other loans and convertible bonds are set out in Notes 34, 35 and 37. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities in accordance with the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Within 1 year	1-2 years	3-5 years	Total undiscounted cash flows	Carrying amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2012					
Trade payables and accruals	**132,102**	**–**	**–**	**132,102**	**132,102**
Obligation under a finance lease	**25,149**	**41,101**	**41,102**	**107,352**	**94,626**
Amount due to an associate	**34,900**	**–**	**–**	**34,900**	**34,900**
Bank and other loans	**20,829**	**32,603**	**65,079**	**118,511**	**116,085**
Convertible bonds	**96,753**	**–**	**–**	**96,753**	**94,410**
Amount due to a fellow subsidiary of a partner of a jointly controlled entity	**74,760**	**–**	**–**	**74,760**	**74,760**
Financial guarantee contract	**153,881**	**–**	**–**	**153,881**	**–**
	538,374	**73,704**	**106,181**	**718,259**	**546,883**
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	10,715	–	104,140	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	302,114	–	718,314	519,382

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

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

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

- 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; and

- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

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.

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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

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

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at FVTPL				
– Held for trading investments	**3,163**	**–**	**–**	**3,163**

	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 FVTPL				
– 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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

7. TURNOVER

Turnover represents the amounts received and receivable from sales of polishing materials and equipments; and provision of terminal and logistics services and gross proceeds from sales of held for trading investments during the year. An analysis of the Group's turnover for the year is as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Sales of polishing materials and equipments	**95,526**	124,699
Provision of terminal and logistics services	**285,135**	140,984
Gross proceeds from sales of held for trading investments	**25,627**	1,207
	406,288	266,890

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 assessment of segment performance 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 equipment	–	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

Information regarding the above segments is reported below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

	Revenue		Segment result	
	For the year ended 31 December			
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Revenue				
Polishing materials and equipment	**95,526**	124,699	**(23,931)**	(14,935)
Terminal and logistics services	**285,135**	140,984	**109,558**	60,406
Investment	**–**	–	**(26,495)**	(421,602)
	380,661	265,683	**59,132**	(376,131)
Unallocated corporate expenses			**(7,458)**	(5,675)
Unallocated other income and gain			**–**	5
Unallocated finance costs			**(31,120)**	(38,676)
Profit (loss) before taxation			**20,554**	(420,477)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

As at 31 December 2012

	Polishing materials and equipment HK$'000	Terminal and logistics services HK$'000	Investment HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	**71,819**	**1,022,162**	**177,100**	**1,271,081**
Unallocated corporate assets				**1,286**
Consolidated total assets				**1,272,367**
LIABILITIES				
Segment liabilities	**12,876**	**364,698**	**50,748**	**428,322**
Unallocated corporate liabilities				**196,937**
Consolidated total liabilities				**625,259**

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

As at 31 December 2011

	Polishing materials and equipment HK$'000	Terminal and logistics services HK$'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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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.
- all liabilities are allocated to reportable segments other than certain bank loans, convertible bonds, taxation payable and deferred tax liabilities.

Other segment information

As at 31 December 2012

	Polishing materials and equipment *HK$'000*	Terminal and logistics services *HK$'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)*	54	236,974	–	–	237,028
Reversal of allowance for inventories (included in cost of sales)	(749)	–	–	–	(749)
Allowance for inventories	4,956	–	–	–	4,956
Amortisation of sea use rights	–	2,439	–	–	2,439
Amortisation of prepaid lease payments	–	414	–	–	414
Decrease in fair value of held for trading investments	–	–	177	–	177
Depreciation of property, plant and equipment	3,958	16,590	69	–	20,617
Interest on margin loans	–	–	125	–	125
Finance lease charges	30	1,559	–	–	1,589
Loss on disposal of convertible bonds designated as financial assets at fair value through profit or loss	–	–	7,366	–	7,366
Loss on disposal of available-for-sale investments	–	–	3,106	–	3,106
Gain on disposal of held for trading investments	–	–	(9,514)	–	(9,514)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

As at 31 December 2012 (Continued)

	Polishing materials and equipment HK$'000	Terminal and logistics services HK$'000	Investment HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss or segment assets:					
Interest income from banks and financial institutions	(8)	–	(1,932)	–	(1,940)
Interest income from loan receivables	(687)	–	–	–	(687)
Interest income from amount due from an associate	–	–	(1,421)	–	(1,421)
Impairment loss on trade receivables	5,245	9,285	–	–	14,530
Loss on disposal of an associate	–	–	10,898	–	10,898
Interests in an associate	–	–	76,844	–	76,844
Loss on disposal of property, plant and equipment	–	64	39	–	103
Written off of property, plant and equipment	3,740	–	–	–	3,740
Reversal of impairment loss on trade receivables	(59)	–	–	–	(59)
Gain on disposal of subsidiaries	–	–	(6,678)	–	(6,678)
Loss on partial disposal of an associate	–	–	12,742	–	12,742
Share of loss of an associate	–	–	7,114	–	7,114
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	–	–	–	20,592	20,592
Effective interest expenses promissory note	–	–	–	7,339	7,339
Finance cost on bank and other loans	–	–	–	3,189	3,189
Income tax expense	279	22,703	–	–	22,982

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For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

As at 31 December 2011

	Polishing materials and equipment *HK$'000*	Terminal and logistics services *HK$'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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

As at 31 December 2011 (Continued)

	Polishing materials and equipment *HK$'000*	Terminal and logistics services *HK$'000*	Investment *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:					
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 other loan	–	–	–	4,766	4,766
Increase in fair value of investment property	–	–	–	(500)	(500)
Income tax expense	724	8,262	3,126	–	12,112

Note: Non-current assets excluded financial instruments. The additions to non-current assets include additions arising from acquisition of a subsidiary amounting to HK$492,571,000 in 2011.

Revenue from major products and services

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

	2012 ***HK$'000***	2011 *HK$'000*
Sale of polishing materials and equipment	**95,526**	124,699
Terminal and logistics service	**285,135**	140,984
	380,661	265,683

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Geographical information

The Group's polishing materials and equipment division is are mainly located in Hong Kong (country of domicile) and the PRC. Terminal and logistics services 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	
	2012	2011
	HK$'000	*HK$'000*
Hong Kong	**37,096**	41,903
The PRC	**331,059**	217,898
Other Asian regions	**6,154**	2,767
North America and Europe	**1,236**	1,830
Other countries	**5,116**	1,285
	380,661	265,683

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	
	2012	2011
	HK$'000	*HK$'000*
Hong Kong	**82,244**	173,699
The PRC	**851,503**	619,013
	933,747	792,712

Information about major customers

Revenues from customer during the two years ended 31 December 2012 and 2011 contributing over 10% of the total sale of the Group are as follow:

	2012	2011
	HK$'000	*HK$'000*
Terminal and logistics services		
Customer A	**110,377**	66,796

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

9. OTHER INCOME

	2012 HK$'000	2011 HK$'000
Interest income from banks and financial institutions	**1,940**	1,276
Interest income from loan receivables	**687**	4,559
Interest income from amount due from an associate	**1,101**	409
Interest income from convertible bonds designated as financial assets at fair value through profit or loss	**–**	121
Net foreign exchange gains	**124**	13
Rental income	**1,745**	497
Reversal of impairment loss on loan/trade receivables	**59**	27,000
Gain on disposal of a club membership	**840**	–
Sundry income	**703**	756
	7,199	34,631

10. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interests on bank loans wholly repayable within five years	**8,158**	4,766
Finance lease charges	**4,946**	55
Interest on margin loans	**125**	374
Effective interest expenses on convertible bonds	**20,592**	27,044
Effective interest expenses on promissory note wholly repayable within five years *(Note 38)*	**7,339**	6,866
Total borrowing costs	**41,160**	39,105
Less: amounts capitalised	**(8,326)**	–
	32,834	39,105

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEE'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the twelve (2011: nine) directors and the chief executive were as follows:

2012

Name of director	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Total *HK$'000*
Executive Directors				
Mr. Wong Lik Ping *(Note v)*	–	–	–	–
Ms. Yeung Sau Han, Agnes	–	260	12	272
Mr. Cheng Kwok Woo *(Note iv)*	–	593	30	623
Ms. Chan Shui Sheung, Ivy	–	390	19	409
Mr. Lai Ka Fai *(Note i)*	–	1,116	14	1,130
Mr. Wang Liang *(Note vi)*	–	49	1	50
Mr. Shi Chong *(Note vi)*	–	63	–	63
Non-executive Director				
Mr. Cheng Kwok Woo *(Note iv)*	–	437	20	457
Independent Non-executive Directors				
Mr. Leung Yuen Wing	180	–	–	180
Mr. Lam Kwok Hing Wilfred	180	–	–	180
Mr. Goh Choo Hwee *(Note ii)*	172	–	–	172
Mr. Ho Hin Yip *(Note vii)*	5	–	–	5
Mr. Chow Fu Kit, Edward *(Note iii)*	15	–	–	15
Total for the year 2012	552	2,908	96	3,556

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 viii)*	–	482	24	506
Ms. Yeung Sau Han, Agnes	–	260	12	272
Ms. Chan Shui Sheung, Ivy	–	390	19	409
Mr. Tin Ka Pak *(Note ix)*	–	194	6	200
Independent Non-executive Directors				
Mr. Leung Yuen Wing	180	–	–	180
Mr. Soong Kok Meng *(Note x)*	6	–	–	6
Mr. Chow Fu Kit, Edward	180	–	–	180
Mr. Lam Kwok Hing Wilfred	129	–	–	129
Total for the year 2011	495	2,330	109	2,934

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEE'S EMOLUMENTS (Continued)

(a) Directors' and chief executive's emoluments (Continued)

Ms. Yeung Sau Han, Agnes is also the chief executive officer of the Company and the emoluments disclosed above include those for services rendered by her as the chief executive officer.

No directors and chief executive waived or agreed to waive any emoluments in the two years ended 31 December 2012 and 2011.

Note i: Mr. Lai Ka Fai was appointed as an executive director on 18 January 2012.

Note ii: Mr. Goh Choo Hwee was appointed as an independent non-executive director on 18 January 2012.

Note iii: Mr. Chow Fu Kit, Edward resigned as an independent non-executive director on 31 January 2012.

Note iv: Mr. Cheng Kwok Woo was re-designated from executive director to non-executive director on 9 August 2012.

Note v: Mr. Wong Lik Ping was appointed as an executive director on 9 August 2012.

Note vi: Mr. Wang Liang and Mr. Shi Chong were appointed as an executive director on 4 December 2012.

Note vii: Mr. Ho Hin Yip was appointed as an independent non-executive director on 21 December 2012.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEE'S EMOLUMENTS

(Continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2011: one) were directors of the Company whose emoluments are included in the disclosures in Note 11(a) above. The emoluments of the remaining three (2011: four) highest paid individuals were as follows:

	2012	2011
	HK$'000	*HK$'000*
Salaries and other benefits	**2,384**	3,997
Retirement benefits scheme contributions	**74**	60
	2,458	4,057

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
HK$nil to HK$1,000,000	**3**	1
HK$1,000,001 to HK$1,500,000	**–**	3

During the two years ended 31 December 2012 and 2011, 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

	2012	2011
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation		
– Hong Kong Profits Tax	**1,367**	1,292
– PRC Enterprise Income Tax	**13,720**	8,208
– Withholding tax for dividend from PRC jointly controlled entities	**1,322**	–
	16,409	9,500
Deferred taxation *(Note 40)*	**6,573**	2,612
	22,982	12,112

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

12. TAXATION (Continued)

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

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

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

Pursuant to the letter issued by the relevant PRC authority on 7 March 2005, under Guoshuihan, [2005] No.6 (日照市國家稅務局日國稅函[2005]6號), Rizhao Lanshan 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 Lanshan 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 Lanshan started this exemption from 2005 when its first profit-making year of operation began. Rizhao Lanshan was entitled to a 50% relief from the EIT and charged at 12.5% for the year ended 31 December 2012 and 2011.

Shanghai PME-XINHUA is a Sino-foreign equity joint ventures engaging in the production of polishing materials business and is exempted from taxation for the first two profitable years starting from 2008 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 2012 and 2011.

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

	2012 ***HK$'000***	2011 *HK$'000*
Profit (loss) before taxation	**20,554**	(420,477)
Tax at Hong Kong Profits Tax rate of 16.5% (2011: 16.5%)	**3,391**	(69,379)
Tax effect of share of results of associates	**1,174**	5,823
Tax effect of expenses not deductible for tax purpose	**13,882**	49,444
Tax effect of income not taxable for tax purpose	**(2,300)**	(4,666)
Tax effect of tax loss not recognised	**2,714**	28,947
Utilisation of tax loss previously not recognised	**(38)**	(17)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**9,540**	4,907
Effect of tax exemption granted to PRC subsidiaries	**(14,029)**	(5,362)
Tax effect of withholding tax at 10% on the distributable profits of the Group's PRC jointly controlled entities	**8,648**	2,415
Tax charge for the year	**22,982**	12,112

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

13. LOSS FOR THE YEAR

	2012 HK$'000	2011 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**20,617**	14,116
Amortisation of prepaid lease payments	**414**	274
Amortisation of sea use rights	**2,439**	1,310
Staff costs, including directors' emoluments	**18,249**	23,271
Contributions to retirement benefits schemes	**381**	458
	18,630	23,729
Auditors' remuneration	**1,050**	1,180
Impairment loss on trade receivables (included in administrative expenses)	**14,530**	7,098
Reversal of allowance for inventories (included in cost of sales)	**(749)**	–
Allowance for inventories (included in cost of sales)	**4,956**	246
Loss on disposal of property, plant and equipment	**103**	603
Written off of property, plant and equipment	**3,740**	–
Cost of inventories recognised as expenses	**88,499**	179,711
Minimum lease payment in respect of rental premises	**1,586**	2,746

14. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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:

	2012	2011
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(2,426)**	(432,451)

Number of shares

	2012	2011
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**6,557,640**	3,883,321

	2012	2011
Basic loss per share *(in HK cents)*	**(0.04)**	(11.14)
Diluted loss per share *(in HK cents)*	**(0.04)**	(11.14)

Diluted loss per share 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 for both 2012 and 2011.

The computation of diluted loss 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 2012 and 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

16. PROPERTY, PLANT AND EQUIPMENT

	Building HK$'000	Terminal facility HK$'000	Terminals equipment HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
AT COST OR VALUATION								
At 1 January 2011	–	–	–	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
Additions	–	–	118,489	306	26	638	117,569	237,028
Disposals	–	(612)	–	(182)	–	(792)	–	(1,586)
Written off	–	–	–	(20,896)	–	–	–	(20,896)
Reclassification upon completion	4,901	161,202	4,137	–	–	–	(170,240)	–
Exchange realignment	83	6,552	3,085	503	6	37	2,660	12,926
At 31 December 2012	**6,097**	**405,731**	**165,809**	**16,099**	**11,494**	**5,018**	**126,991**	**737,239**
ACCUMULATED DEPRECIATION								
At 1 January 2011	–	–	–	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
Provided for the year	59	6,875	9,398	3,116	362	807	–	20,617
Eliminated on disposals	–	(572)	–	(72)	–	(406)	–	(1,050)
Eliminated on written off	–	–	–	(17,156)	–	–	–	(17,156)
Exchange realignment	1	392	882	306	2	11	–	1,594
At 31 December 2012	**81**	**11,116**	**15,651**	**11,544**	**11,342**	**2,517**	**–**	**52,251**
CARRYING VALUES								
At 31 December 2012	**6,016**	**394,615**	**150,158**	**4,555**	**152**	**2,501**	**126,991**	**684,988**
At 31 December 2011	1,092	234,168	34,727	11,018	484	3,030	177,002	461,521

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

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 payments.

The carrying value of terminal equipments and motor vehicles include amounts of HK$114,935,000 and HK$671,000 respectively (2011: nil and HK$1,175,000) in respect of assets held under finance leases.

The Group has pledged terminal facilities with a carrying value of approximately HK$25,285,000 to secure a finance lease facility granted to the Group.

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. The pledged assets agreement was expired in August 2012. The pledged assets have been released and the respective loan has been classified as unsecured other loan (Note 35).

17. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1 January 2011	4,700
Increase in fair value recognised in the consolidated income statement	500
At 31 December 2011 and 1 January 2012	5,200
Disposal of a subsidiary *(Note 43)*	(5,200)
At 31 December 2012	**–**

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

The investment property was disposed of upon the disposal of subsidiary on 27 March 2012 (Note 43).

The investment property of the Group was revaluated by Jointgoal Surveyors Limited, an independent firm of registered professional surveyors not connected to the Group. Jointgoal Surveyors Limited is member of the Institute of Valuers, and has 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 was arrived by reference to comparable transactions as available on the market.

Notes to the Consolidated Financial Statements

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18. PREPAID LEASE PAYMENTS

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

	2012	2011
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current asset	**18,552**	18,624
Current asset	**422**	414
	18,974	19,038

19. AVAILABLE-FOR-SALE INVESTMENTS

	2012	2011
	HK$'000	*HK$'000*
Equity securities listed in Hong Kong, at fair value based on quoted market bid price		
Carrying amount at 1 January	**38,538**	108,171
Impairment on available-for-sale investments	**–**	(69,633)
Disposal of available-for-sale investments	**(38,538)**	–
Carrying amount at 31 December	**–**	38,538
Unlisted equity securities (*Note*)	**2,500**	2,500
	2,500	41,038

Note: 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

20. GOODWILL

	HK$'000
COST	
At 1 January 2011	161,008
Arising on acquisition of a subsidiary *(Note 42)*	39,949
At 31 December 2011 and 1 January 2012	200,957
Eliminated on disposal of a subsidiary *(Note 43)*	(12,817)
At 31 December 2012	**188,140**
ACCUMULATED IMPAIRMENT LOSS	
At 1 January 2011, 31 December 2011 and 1 January 2012	161,008
Eliminated on disposal of a subsidiary *(Note 43)*	(12,817)
At 31 December 2012	**148,191**
CARRYING VALUES	
At 31 December 2012	**39,949**
At 31 December 2011	39,949

On 28 April 2011, the Group acquired Upmove International Limited ("Upmove") with goodwill of approximately HK$39,949,000. Details are set out in Note 42.

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 services segment.

Goodwill of HK$161,008,000 allocated to the investment segment was fully impaired.

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20. GOODWILL (Continued)

Impairment testing on goodwill

For the purposes of impairment testing, goodwill had been allocated to two (2011: two) individual cash generating unit as at 31 December 2012. The carrying amounts of goodwill (net of accumulated impairment losses) as at the end of the reporting period allocated to these are as follows:

	2012	2011
	HK$'000	*HK$'000*
Investment segment	**–**	–
Terminal and logistics services segment	**39,949**	39,949
	39,949	39,949

Terminal and logistics services segment

The recoverable amount of terminal and logistics services 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 11% (2011: 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.

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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	
At 1 January 2011	–
Arising on acquisition of a subsidiary	110,354
Exchange realignment	2,416
At 31 December 2011 and 1 January 2012	112,770
Exchange realignment	2,120
At 31 December 2012	**114,890**
AMORTISATION	
At 1 January 2011	–
Charge for the year	1,310
Exchange realignment	8
At 31 December 2011 and 1 January 2012	1,318
Charge for the year	2,439
Exchange realignment	65
At 31 December 2012	**3,822**
CARRYING VALUES	
At 31 December 2012	**111,068**
At 31 December 2011	111,452

The Group has pledged sea use rights with a net book value of approximately HK$52,032,000 (2011: nil) to secure a finance lease facility granted to the Group.

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22. INTERESTS IN ASSOCIATES

	2012	2011
	HK$'000	*HK$'000*
Cost less accumulated impairment of investment in associates		
– Listed in Hong Kong	**148,843**	174,635
– Unlisted	**–**	55,926
Share of post-acquisition results and other comprehensive income	**(71,999)**	(74,945)
	76,844	155,616
Fair value of listed investments	**14,805**	21,669

China Railway Logistics Limited ("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 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% 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 2012, the Group held approximately 9.96% equity interests in China Railway. During the year ended 31 December 2012, the Group partially disposed of its interest in China Railway at a net consideration of approximately HK$3,170,000 and resulted in a loss of partial disposal of approximately HK$12,742,000.

Express Advantage Limited ("Express Advantage")

During the year ended 31 December 2012, the Group had entered into an agreement to dispose of its 20% equity interest in Express Advantage and sales loan with carrying amounts of approximately HK$17,898,000 to an independent third party (included in amounts due from associates), at a cash consideration of HK$7,000,000. The transaction completed on the same date and resulted in a loss on disposal of an associate of approximately HK$10,898,000.

Giant Billion Limited ("Giant Billion")

During the year ended 31 December 2012, the Group had entered into an agreement to dispose of its 100% equity interest in Smart Genius Limited ("Smart Genius"), a wholly-owned subsidiary of the Group with 49% equity interest in Giant Billion. Immediately after the disposal, the Group had no equity interests in Giant Billion.

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22. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2012 and 2011, the Group has 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 2012	2011	Principal activities
China Railway	Incorporated	Bermuda	Hong Kong	Ordinary shares	**9.96%**	11.88%	Provision of telecommunication and computer technology solutions
Express Advantage	Incorporated	British Virgin Island	Hong Kong	Ordinary shares	–	20%	Investments in trading equity securities
Giant Billion	Incorporated	Hong Kong	Hong Kong	Ordinary shares	–	49%	Provision of marketing, promotion, business consulting and technical services

As at 31 December 2011, included in the cost of investment in associates is goodwill of HK$56,000,000 arising on acquisition of Giant Billion.

The movement of goodwill is set out below:

	HK$'000
COST	
At 1 January 2011	188,302
Impairment loss on goodwill	(132,302)
At 31 December 2011 and 1 January 2012	56,000
Eliminated on disposal of a subsidiary	(56,000)
At 31 December 2012	**–**

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22. INTERESTS IN ASSOCIATES (Continued)

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

	2012 HK$'000	2011 HK$'000
Total assets	**883,112**	915,817
Total liabilities	**(88,713)**	(121,388)
Non-controlling interests	**(22,681)**	(20,319)
Net assets	**771,718**	774,110
Group's share of net assets of associates	**76,844**	99,616
Turnover	**155,335**	94,804
Loss for the year	**(71,458)**	(396,392)
Group's share of results of associates for the year	**(7,114)**	(35,290)

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

During the year ended 31 December 2011, the Group had advances of approximately HK$17,738,000 to Express Advantage and pledged certain of its listed securities with a total market value of approximately HK$244,000 as at 31 December 2011 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 parent of Express Advantage had entered into an agreement, pursuant to which the Group shall be entitled to a 50% share of the trading profits from the securities account of Express Advantage until the full settlement of the advances and the release of charge over the Group's assets.

As details in Note 22, Express Advantage was disposed on 13 December 2012. During the year ended 31 December 2012, loss on disposal of Express Advantage's listed securities which have been pledged to secure against the margin facilities was recognised and no trading profits shall be entitled.

For the year ended 31 December 2011, the securities of the Group which have been pledged to secure against the margin facilities granted by a financial institution to an associate were included in the held for trading investments in the consolidated statement of financial position.

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24. INVENTORIES

	31 December 2012 *HK$'000*	1 December 2011 *HK$'000*
Raw materials	**1,287**	1,365
Finished goods	**21,355**	24,144
	22,642	25,509

During the year ended 31 December 2012, a reversal of allowance for inventories of approximately HK$749,000 (2011: nil) had been recognised and included in cost of sales as the corresponding inventories were sold.

25. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Trade receivables	**85,153**	89,245
Less: impairment losses on trade receivables	**(19,691)**	(16,834)
Trade receivables net of impairment loss	**65,462**	72,411
Bills receivable	**69,876**	12,903
Other receivables from investing transactions *(Note)*	**42,875**	–
Other receivables, deposits and prepayments	**4,130**	7,407
	182,343	92,721

Note:

As at 31 December 2012, included in the Group's other receivables from investment transactions is amounting to HK$32,000,000 receivable from China Fortune Financial Group Limited ("China Fortune"), a company listed on the Main Board of the Stock Exchange arising from for the convertible bond due on 30 June 2012. The settlement arrangement with China Fortune after the end of reporting period is set out in Note 50.

The remaining balance of HK$9,000,000 and HK$1,875,000 represent the outstanding consideration receivables from the disposal of a subsidiary and partial disposal of an associate.

The Group does not hold any collateral over these balances.

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.

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

The aging analysis of the trade receivables, net of impairment loss recognised based on the invoice date, which approximated the respective revenue recognition dates at the end of the reporting period was as follows.

	31 December 2012 HK$'000	31 December 2011 HK$'000
Within 30 days	**42,437**	34,846
31 to 60 days	**13,656**	5,523
61 to 90 days	**4,712**	31,598
Over 90 days	**4,657**	444
	65,462	72,411

Bills receivables were aged within 180 days which approximated the respective revenue recognition dates at the end of the reporting period.

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$60,812,000 (2011: HK$68,616,000) 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$4,650,000 (2011: HK$3,795,000) which were past due at the end of the reporting period 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 receivables is 209 days (2011: 95 days).

Aging of trade debtors which are past due but not impaired

	31 December 2012 HK$'000	31 December 2011 HK$'000
Within 30 days	**2,060**	2,284
31 to 60 days	**1,359**	1,109
61 to 90 days	**–**	273
Over 90 days	**1,231**	129
	4,650	3,795

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

Movements in the accumulated impairment losses

	31 December 2012 HK$'000	31 December 2011 HK$'000
Balance at beginning of the year	**16,834**	9,736
Reversal of impairment loss	**(59)**	–
Impairment loss recognised in consolidated income statement	**14,530**	7,098
Written off	**(11,614)**	–
Balance at end of the year	**19,691**	16,834

Included in the accumulated impairment losses were individually impaired receivables with an aggregate balance of HK$19,691,000 (2011: HK$16,834,000) which have either been in disputes with the Group or are in financial difficulties.

The trade and bills receivables, other receivables, deposits and prepayments denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2012 HK$'000	2011 HK$'000
USD	**849**	562
Japanese Yen	**1,515**	199
Euro	**542**	571
RMB	**7,497**	1,908

26. INTEREST IN JOINTLY CONTROLLED ENTITIES

As at 31 December 2012 and 2011, the Group has 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
			2012	2011	2012	2011	
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 *(Note b)*	RMB330,000,000 (2011: RMB140,000,000)	Sino-foreign joint venture company PRC	**50%**	50%	**50%**	50%	Loading and discharging services, storage services, leasing of terminal facilities and equipment

Notes to the Consolidated Financial Statements

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26. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

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

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Non-current assets		
Property, plant and equipment	**680,113**	448,988
Prepaid lease payments	**18,552**	18,624
Goodwill	**39,949**	39,949
Sea use rights	**111,068**	111,452
Deposits for acquisition of property, plant and equipment	**1,821**	–
	851,503	619,013
Current assets		
Inventories	**3,783**	3,110
Trade and bills receivables, other receivables, deposits and prepayments	**102,731**	56,096
Prepaid lease payments	**422**	414
Pledged bank deposits	**–**	63,046
Bank balances and cash	**115,288**	139,572
	222,224	262,238
Current liabilities		
Trade payables and accruals	**94,356**	139,736
Taxation payable	**5,483**	4,381
Obligation under a finance lease	**17,819**	–
Bank and other loans	**8,560**	73,386
Amount due to a fellow subsidiary of a partner of a jointly controlled entity	**74,760**	–
	200,978	217,503
Non-current liabilities		
Obligation under a finance lease	**76,414**	–
Bank and other loans	**95,722**	10,633
Port construction fee refund	**–**	151,793
Deferred tax liabilities	**34,226**	27,186
	206,362	189,612

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26. INTEREST IN JOINTLY CONTROLLED ENTITIES (Continued)

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

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Revenue	**300,921**	157,896
Cost of sales	**(161,420)**	(85,650)
Gross profit	**139,501**	72,246
Other income	**2,235**	1,380
Selling and distribution expenses	**(343)**	(407)
Administrative expenses	**(25,747)**	(12,076)
Finance cost	**(3,414)**	(3,727)
Profit before taxation	**112,232**	57,416
Taxation	**(22,898)**	(10,820)
Net profit for the year	**89,334**	46,596
Other comprehensive income	**10,914**	9,361

Upon the adoption of equity method, as required by HKFRS 11 effective in the coming financial period, each line item prescribed above will be aggregated into single line items to be presented in the consolidated income statement and consolidated statement of financial position.

Notes:

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 42, the Group acquired the entire issued share capital of Upmove in 2011. 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.

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

	2012	2011
	HK$'000	*HK$'000*
Convertible bonds designated as financial assets at fair value through profit or loss		
China Fortune CB1 *(Note a)*	–	6,259
China Fortune CB2 *(Note b)*	–	38,920
	–	45,179

Note a

As at 31 December 2011, the amount represented three-year zero coupon rate convertible bonds (the "China Fortune CB1"), with a principal amount of HK$4,000,000 issued by China Fortune convertible 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 in an amount of not less than HK$100,000.

During the year ended 31 December 2012, the Group exercised all the China Fortune CB1 with principal amount of HK$4,000,000 at a conversion price of HK$0.1 per share. The converted shares with their aggregate market value of approximately HK$5,813,000 were classified as held for trading investments and a loss on fair value change of approximately HK$446,000 was recognised in consolidated income statement.

Note b

As at 31 December 2011, the amount represented 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 China Fortune CB2 was due on 30 June 2012 with an aggregate principal amount of HK$32,000,000. Upon maturity on 30 June 2012, the China Fortune CB2 was for payment and reclassified as an other receivable (Note 25). As a result a loss on fair value change of approximately HK$6,920,000 is recognised.

As at 31 December 2011, fair value of all convertible bonds had been determined in accordance with a valuation report issued by Grant Sherman Appraisal Limited, an independent valuer not connected to the Group, using the Binomial Option Pricing Model.

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

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

	2011
China Fortune CB1	
Stock price	HK$0.15
Conversion price	HK$0.10
Volatility	162.20%
Dividend yield	0%
Option life (years)	0.13
Risk free rate	0.180%
China Fortune CB2	
Stock price	HK$0.15
Conversion price	HK$0.16
Volatility	110.04%
Dividend yield	0%
Option life (years)	0.50
Risk free rate	0.230%

28. AMOUNTS DUE FROM ASSOCIATES

	2012	2011
	HK$'000	*HK$'000*
Amounts due from associates	–	52,791
Less: allowance for amounts due from associates	–	(33,000)
	–	19,791

At 31 December 2011, the amounts due from associates were unsecured, non-interest bearing and repayable on demand except for an amount of HK$15,000,000 which was interest bearing at 8% per annum and repayable on demand.

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28. AMOUNTS DUE FROM ASSOCIATES (Continued)

Movements in the allowance for amounts due from associates

	2012 HK$'000	2011 HK$'000
Balance at beginning of the year	**33,000**	–
Allowance recognised in consolidated income statement	–	33,000
Eliminated through the disposal of an associate	**(33,000)**	–
Balance at end of the year	–	33,000

During the year ended 31 December 2012, all of the amounts due from associates were disposed of through the disposal of associate of approximately HK$17,898,000 (Note 22) and through the disposal of subsidiaries of approximately HK$8,070,000 (Note 43).

29. LOAN RECEIVABLES

The loans were made to independent third parties and interests were charged at 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 balances of loans were unsecured, of which HK$15,155,000 were guaranteed by another independent third parties to the counterparties of the loan receivables.

During the year ended 31 December 2012, all of the outstanding balances of the loans were either repaid or disposed together with disposal of subsidiaries.

Movement in the allowance for doubtful debts is set out below:

	HK$'000
COST	
At 1 January 2011	27,000
Reversal of allowance for doubtful debts	(27,000)
At 31 December 2011, January 2012 and 31 December 2012	–

30. HELD FOR TRADING INVESTMENTS

	2012 HK$'000	2011 HK$'000
Listed securities:		
Equity securities listed in Hong Kong, at fair value	**3,163**	10,010

The held for trading investments had been pledged to secure the margin loan (Note 35).

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31. 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% (2011: 0.001% to 0.05%) per annum.

32. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.001% to 0.50% (2011: 0.001% to 0.50%) per annum. The pledged deposits have been released upon the settlement of relevant bank borrowings during the year.

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

The pledged bank deposits / bank balance and cash are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2012 ***HK$'000***	2011 *HK$'000*
USD	**140**	434
Japanese Yen	**511**	170
Euro	**9**	23

33. TRADE PAYABLES AND ACCRUALS

	31 December **2012** ***HK$'000***	31 December 2011 *HK$'000*
Trade payables	**12,522**	13,995
Other payables and accruals *(Note)*	**39,953**	44,541
Construction fee payable	**80,474**	109,028
	132,949	167,564

Note:

As at 31 December 2012, included in the Group's other payables and accruals is amount of approximately HK$14,720,000 (2011: nil) payable to an independent party for the acquisition of the Group's held for trading investments and available-for-sales investment.

As at 31 December 2012, included in the Group's other payables and accrual is amount of approximately HK$6,346,000 (2011: HK$24,402,000) payable to the Ministry of Transport of the PRC for terminal and logistics services operation.

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33. TRADE PAYABLES AND ACCRUALS (Continued)

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

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Within 30 days	**5,557**	6,757
31 to 60 days	**3,587**	5,160
61 to 90 days	**1,988**	929
Over 90 days	**1,390**	1,149
	12,522	13,995

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.

The trade payables and accruals are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2012 *HK$'000*	2011 *HK$'000*
USD	**24**	2,429
Japanese Yen	**3,481**	4,955
Euro	**2,573**	2,681
RMB	**64**	40

34. OBLIGATION UNDER FINANCE LEASES

Analysed for reporting purposes as:

	2012 *HK$'000*	2011 *HK$'000*
Current liabilities	**18,212**	568
Non-current liabilities	**76,414**	392
	94,626	960

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34. OBLIGATION UNDER FINANCE LEASES (Continued)

The average lease terms of the finance leases were four (2011: three) years. Interest rates are fixed at rates ranging from 5.70% to 7.93% (2011: 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	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under a finance leases:				
Within one year	**25,149**	598	**18,212**	568
In more than one year, but not more than two years	**41,101**	399	**36,760**	392
In more than two years, but not more than five years	**41,102**	–	**39,654**	–
	107,352	997	**94,626**	960
Less: future finance charges	**(12,726)**	(37)		
Present value of lease obligations	**94,626**	960		
Less: Amount due for settlement within twelve months (shown under current liabilities)			**(18,212)**	(568)
Amount due for settlements after twelve months			**76,414**	392

At 31 December 2012 and 2011, the Group's obligation under a finance leases were secured by the lessor's charge over the property, plant and equipment (Note 16) and sea use right (Note 21).

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35. BANK AND OTHER LOANS

	2012	2011
	HK$'000	*HK$'000*
Carrying amounts repayable:		
Within one year	**20,363**	91,908
In more than one year but not more than two years	**95,722**	10,633
Total bank and other loans	**116,085**	102,541
Less: Amounts due within one year shown under current liabilities	**(20,363)**	(91,908)
	95,722	10,633
Represented by:		
Other loans	**10,000**	15,000
Bank loans	**104,282**	84,019
Margin loans with financial institutions other than banks	**1,803**	3,522
	116,085	102,541
Analysed as:		
Secured	**1,803**	87,541
Unsecured	**114,282**	15,000
	116,085	102,541

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

	2012	2011
	HK$'000	*HK$'000*
Fixed-rate loans	**10,000**	15,000
Variable-rate loans	**106,085**	87,541
	116,085	102,541

The Group's variable-rate loans carry interest at the standard lending rate of the People's Bank of China as at 31 December 2012 and 2011.

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35. BANK AND OTHER LOANS (Continued)

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

	2012	2011
Effective interest rate		
Fixed-rate loans	**9%**	6.1% to 11.25%
Variable-rate loans	**Standard lending rate of the People's Bank of China**	Standard lending rate of the People's Bank of China

As at 31 December 2012, the margin loans were secured by the listed securities held under the margin accounts, with a total market value of approximately HK$3,163,000 (2011: HK$9,305,000).

As at 31 December 2012, the bank loans were not secured. As at 31 December 2011, the bank loans were secured by the Group's property, plant and equipment (Note 16) and pledged bank deposits (Note 32).

36. AMOUNT DUE TO A FELLOW SUBSIDIARY OF A PARTNER OF A JOINTLY CONTROLLED ENTITY/PORT CONSTRUCTION FEE REFUND

The port construction fee refund was amounts received on behalf of the Ministry of Transport of the PRC in prior year. The usage of the port construction fee refund is subject to the approval of the relevant PRC government authority.

During the year ended 31 December 2012, the Ministry of Transport assigned such amount for subsidising infrastructures to be built by 日照港集團嵐山港務有限公司, a fellow subsidiary of a partner of a jointly controlled entity of the Group. The Group then entered into a transfer agreement (the "Transfer Agreement") with such company to transfer such amount of fund to such company. Pursuant to the Transfer Agreement, all the balance is repayable on demand and due on 31 December 2013.

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37. 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.

CB1 would 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
At 1 January 2011	49,315
Interest charged	6,591
Interest payable	(1,800)
At 31 December 2011 and 1 January 2012	54,106
Interest charged	7,228
Interest payable	(1,800)
At 31 December 2012	**59,534**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

37. 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 26 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
At 1 January 2011	179,786
Interest charged	20,453
Conversion during the year	(60,044)
At 31 December 2011 and 1 January 2012	140,195
Interest charged	13,364
Conversion during the year	(118,683)
At 31 December 2012	**34,876**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

37. CONVERTIBLE BONDS (Continued)

(b) (Continued)

During the year ended 31 December 2012, the holders of CB2 have exercised the conversion right to convert an aggregate principal amount of HK$129,600,000 of the convertible bonds into a total 4,320,000,000 ordinary shares in six conversions. The principal amount outstanding after the conversion was HK$36,600,000.

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.

38. 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%.

As details in Note 43, on 29 December 2012, the Group had entered into an agreement to dispose of its 100% equity interest in Smart Genius, a wholly-owned subsidiary of the Group. The promissory note was disposed of through the disposal of Smart Genius.

The movement of the promissory note is set out below:

	HK$'000
At 1 January 2011	51,377
Interest charged *(Note 10)*	6,866
Interest payable	(3,000)
At 31 December 2011 and 1 January 2012	55,243
Interest charged *(Note 10)*	7,339
Interest payable	(2,983)
Disposal of a subsidiary *(Note 43)*	(59,599)
At 31 December 2012	**–**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

39. SHARE CAPITAL

	Number of ordinary shares of HK$0.01 each		Share capital	
	2012	2011	**2012**	2011
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
Ordinary shares of HK$0.01 each at 1 January 2011, 31 December 2011 and 31 December 2012	**15,000,000**	15,000,000	**150,000**	150,000
Issued and fully paid:				
At beginning of year	**5,084,198**	2,544,198	**50,842**	25,442
Issue of shares upon conversion of convertible bonds *(Note)*	**4,320,000**	2,540,000	**43,200**	25,400
At end of year	**9,404,198**	5,084,198	**94,042**	50,842

Note:

During the year ended 31 December 2012, the holders of CB2 have exercised the conversion right to convert an aggregate principal amount of HK$129,600,000 of the convertible bonds into a total 4,320,000,000 ordinary shares in six conversions.

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.

These shares rank pari passu with the existing shares in all respects.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

40. 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	Tax losses recognised	Withholding tax on undistributed profits of jointly controlled entities in the PRC	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	349	–	–	(361)	–	(12)
Arising on acquisition of a subsidiary	–	–	25,545	–	–	25,545
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
(Credit) change to consolidated income statement for the year *(Note 12)*	–	(48)	(705)	–	8,648	7,895
Reallocated to current tax *(Note 12)*	–	–	–	–	(1,322)	(1,322)
Exchange realignment	–	(6)	473	–	–	467
At 31 December 2012	**–**	**(364)**	**25,366**	**–**	**9,741**	**34,743**

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 2012, the Group had unused tax losses of approximately HK$302,175,000 (2011: HK$278,362,000) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

41. 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.

The following table discloses the movements of the Company's share options granted during the year ended 31 December 2012 and 2011:

Name of participant	Date of grant	Exercisable period	Exercisable price HK$	Number of shares options outstanding at 1/1/2011, 1/1/2012 and 31/12/2012
Directors				
Yeung Sau Han, Agnes	27.5.2010	27.5.2010 to 26.5.2015	0.64	175,000,000
Cheng Kwok Woo	27.5.2010	27.5.2010 to 26.5.2015	0.64	1,500,000
Employee				
Cheng Kwong Cheong	27.5.2010	27.5.2010 to 26.5.2015	0.64	1,500,000
				178,000,000
Weighted average exercise price				HK$0.64

No share-based payment expense was recognised during the year ended 31 December 2012 and 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

42. 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 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 date 27 January 2011. The acquisition was completed on 28 April 2011.

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

	Fair value
	HK$'000
Non-current asset	
Property, plant and equipment	363,317
Sea use rights	110,354
Prepaid lease payments	18,900
Current assets	
Trade and bill receivables, other receivables, deposits and prepayments	106,452
Banks balances an cash	182,511
Current liabilities	
Trade payables and accruals	(131,991)
Taxation payable	(883)
Bank and other loans	(59,840)
Non-current liabilities	
Port construction fee refund	(148,541)
Bank and other loans	(41,140)
Deferred tax liabilities	(25,545)
Net assets	373,594
Cash consideration paid	413,543
Goodwill arising on acquisition *(Note 20)*	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 2012

42. ACQUISITION OF SUBSIDIARIES (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 approximately HK$4,742,000 have been excluded from the consideration transferred and have been recognised as an expense in 2011.

Included in the loss for the year ended 31 December 2011 attributable to the owners of the Group was 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 approximately HK$338,361,000, and loss for the year ended 31 December 2011 would have been approximately HK$362,803,000. The pro forma 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2012

During the year ended 31 December 2012, the Group disposed of all the equity interests in Host Luck Limited ("Host Luck") and Smart Genius which were operated under the investment segment at considerations of HK$1,152,000 and HK$9,000,000 respectively.

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

	Smart Genius *HK$'000*	Host Luck *HK$'000*
Consideration		
Consideration received in cash and cash equivalents	–	1,152
Consideration receivable	9,000	–
Total consideration	9,000	1,152
Analysis of assets and liabilities over which control was lost		
Non-current assets		
Investment property	–	5,200
Interest in an associate	56,000	–
	56,000	5,200
Current assets		
Trade and bills receivables, other receivables, deposits and prepayments	828	66
Loan receivable	5,796	–
Amount due from an associate	8,070	–
Bank balances and cash	1	–
	14,695	66
Current liabilities		
Trade payables and accruals	(8,772)	(3,988)
Non-current liabilities		
Promissory note *(Note 38)*	(59,599)	–
Net assets disposed of	2,324	1,278

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

43. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2012 (Continued)

	Smart Genius *HK$'000*	Host Luck *HK$'000*
Gain on disposal of subsidiaries		
Consideration received and receivable	9,000	1,152
Net assets disposed of	(2,324)	(1,278)
Non-controlling interests	–	128
Gain on disposal	6,676	2
Net cash inflow from disposal of subsidiaries		
Consideration received in cash and cash equivalents	–	1,152
Less: cash and cash equivalent balances disposed of	(1)	–
	(1)	1,152

The cash flows of the disposal of subsidiaries as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Net cash outflow from operating activities	**1**	128

44. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately HK$1,745,000 (2011: HK$497,000).

At 31 December 2012, the Group has contracted with tenants to sub-lease a leased premise for future minimum lease payments as follows:

	2012 ***HK$'000***	2011 *HK$'000*
Within one year	**1,594**	1,437
In the second to fifth year inclusive	**330**	2,042
	1,924	3,479

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

44. OPERATING LEASES (Continued)

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:

	2012 HK$'000	2011 HK$'000
Within one year	**823**	947
In the second to fifth year inclusive	**1,949**	2,123
After five years	**12,181**	11,888
	14,953	14,958

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

45. CAPITAL COMMITMENTS

	2012 HK$'000	2011 HK$'000
Contracted for but not provided:		
Capital injection in a jointly controlled entity	–	100,000
The Group's share of the capital commitment of its jointly controlled entity are as follows:		
Contracted for but not provided:		
Acquisition of property, plant and equipment	**7,051**	86,100
Authorised but not contracted for:		
Acquisition of property, plant and equipment	**52,021**	127,192
	59,072	213,292

46. RETIREMENT BENEFITS SCHEMES

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 represent contributions payable to the MPF Scheme by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

46. RETIREMENT BENEFITS SCHEMES (Continued)

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$381,000 (2011: HK$458,000).

47. RELATED PARTY TRANSACTIONS

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

	2012	2011
	HK$'000	*HK$'000*
Jointly controlled entity		
Sales on polishing materials	**2,296**	1,370
Purchase on polishing materials	**87**	88
Fellow subsidiaries of a partners of a jointly controlled entity		
Service charges paid	**44,119**	18,958
Leasing income	**4,274**	1,014
Construction fee paid	**92,875**	82,936
Related Company in which a director have beneficial interest		
Subcontracting fee paid	**8,014**	9,454
Associates		
Disposal of available-for-sale investments	**35,428**	–
Disposal of held for trading investments	**21,265**	–

In addition, the Group entered into a joint venture arrangement with the joint venture partner as at 31 December 2011. The Group's share of revenues and expenses has been proportionately accounted for in the consolidated financial statements for the year ended 31 December 2012 and 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

47. RELATED PARTY TRANSACTIONS (Continued)

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

	2012	2011
	HK$'000	*HK$'000*
Associates		
Interest income receivable on advance	**1,421**	409
Return on funds and charge over assets granted	**–**	567
Amount due to an associate *(Note)*	**34,900**	–
Fellow subsidiaries of a partners of a jointly controlled entity		
Construction fee payable included in other payables	**61,025**	107,697
Port construction fee refund payable	**74,760**	–

Note: The amounts were unsecured, interest fee and repayable on demand.

(c) During the year ended 31 December 2011, 日照港（集團）嵐山港務有限公司, a fellow subsidiary of a partner of a 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 HK$153,881,000 (2011: HK$151,040,000) towards the banking facilities of 日照港（集團）嵐山港務有限公司 for null consideration during the year ended 31 December 2012.

(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.

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48. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2012, the Group entitled to interest income from loan receivables of approximately HK$687,000 (2011: HK$4,559,000) and of which nil (2011: HK$671,000) were 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$567,000 which had been settled through a current account with the associate which had been included in the amounts due from associates (Note 28) in the consolidated statement of financial position.

During the year, pursuant to a deed of settlement between the Group, an associate and an independent third party, certain amount of the proceed received from the third party is used to apply to settle the amount receivable from the associate which arise from acquisition of certain held for trading investments and financial assets at fair value through profit or loss from the Group. After the deed of settle became effective, an amount of HK$32,000,000 in relation to acquisition of certain financial assets at fair value through profit or loss as stipulated in the deed was subsequently terminated and an amount of HK$2,900,000 in relation to the proceed from disposal of certain held for trading investments on behalf of the associate are included as amount due to an associate.

As set out in Note 47, during the year the Group had HK$1,421,000 interest receivable (2011: HK$409,000) from an associate and was included in the amounts due from associates (Note 28).

During the year, the Group disposed of certain of its held for trading securities to a then associate at a consideration of approximately HK$4,565,000 which had been settled through a current account with the associate included in the accounts due from associates which was also disposed of during the year.

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$92,671,000.

49. LITIGATION

Up to the reporting date, the litigations listed below are related to the Group.

The Company has received three Summonses to Defendant issued by the Eastern Magistrates' Courts of Hong Kong dated 5 June 2012 alleging that the Company has contravened sections 384(1) and 384(6) of the Securities and Futures Ordinance (Cap. 571) in respect of the Company's announcements dated 15, 18 and 20 February 2008 respectively.

Details of above summonses are set out in the Company's announcements dated 12 June 2012.

The Company sought legal advice in respect of the above Summonses, a provision of HK$2,000,000 was provided for estimated legal and other fees.

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50. EVENTS AFTER THE REPORTING PERIOD

Conversion of CB2

On 9, 10 and 14 January 2013, the holders of CB2 have exercised the conversion right to convert principal amounts of HK$6,000,000, HK$26,400,000 and HK$4,200,000 respectively of the convertible bonds into 200,000,000, 880,000,000 and 140,000,000 ordinary shares respectively. CB2 have been fully converted to ordinary shares at the end of 31 January 2013. Further details of the conversion of CB1 were set out in the Company's announcements dated 9, 10 and 14 January 2013 respectively.

Conversion of CB1

On 22 January 2013, the holders of CB1 have exercised the conversion right to convert an aggregate principal amount of HK$59,000,000 of the convertible bonds into a total 295,000,000 ordinary shares. The remaining HK$1,000,000 principal amount outstanding after the conversion was due to settle on the maturity date on 1 February 2013. A further detail of the conversion of CB1 was set out in the Company's next day disclosure return dated 22 January 2013.

Subscription of shares

At 7 February 2013, an aggregate of 1,000,000,000 new ordinary shares, representing approximately 8.39% of the total issued share capital of the Company as enlarged by the issue and allotment of the subscription shares, have been allotted and issued by the Company to the subscribers, at the subscription price of HK$0.355 per subscription share. The net proceeds from the subscription amounted to approximately HK$354,900,000. Further details were set out in the Company's announcements dated 28 January 2013 and 7 February 2013.

Subscription of promissory note and convertible bond

As at 1 January 2013, the Group entered into an agreement with China Fortune to subscribe a promissory note for settling the other receivables from China Fortune in the principal amount of HK$32,000,000 convertible bond due on 30 June 2012. China Fortune promises to pay the aggregate sum of HK$32,000,000 together with the interest accrued on the sum at the rate of 5% per annum from 1 July 2012 to the date on which China Fortune fully repays the sum.

Subscription of convertible bonds

On 6 February 2013, the Group subscribed a three-year 5% coupon rate convertible bond from China Fortune in the principal amount of HK$32,000,000 at an exercise price of HK$0.10 per conversion shares. The convertible bond can be converted into 320,000,000 shares of China Fortune at anytime within a period of three years following the date of issue. The convertible bond was issued on 1 March 2013.

Notes to the Consolidated Financial Statements

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51. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2012 and 2011 were 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 2012	2011	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 International Limited	Hong Kong	Ordinary share HK$1	**100%**	100%	Investment holding

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

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

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

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

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

None of the subsidiaries had any debt securities subsisting at 31 December 2012 and 2011 or at any time during the year.

Financial Summary

RESULTS

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	***HK$'000***
Turnover	298,089	319,588	205,508	266,890	**406,288**
Revenue	211,256	176,709	174,079	265,683	**380,661**
Profit/(loss) before taxation	(268,920)	189,036	(88,919)	(420,477)	**20,554**
Taxation	528	(29,985)	(4,591)	(12,112)	**(22,982)**
Profit/(loss) for the year	(268,392)	159,051	(93,510)	(432,589)	**(2,428)**
Profit/(loss) for the year attributable to:					
– Owners of the Company	(268,371)	158,359	(93,655)	(432,451)	**(2,426)**
– Non-controlling interests	(21)	692	145	(138)	**(2)**
	(268,392)	159,051	(93,510)	(432,589)	**(2,428)**

ASSETS AND LIABILITIES

	As at 31 December				
	2008	2009	2010	2011	**2012**
	HK$'000	*HK$'000*	*HK$'000* (Restated)	*HK$'000*	***HK$'000***
Total assets	721,663	892,277	1,232,511	1,260,968	**1,272,367**
Total liabilities	(90,432)	(68,310)	(352,028)	(741,704)	**(625,259)**
	631,231	823,967	880,483	519,264	**647,108**
Equity attributable to owners of the Company	630,955	822,999	879,370	518,289	**646,263**
Non-controlling interests	276	968	1,113	975	**845**
	631,231	823,967	880,483	519,264	**647,108**